

# ***VERMONT***



## ***COMPREHENSIVE ANNUAL FINANCIAL REPORT***

***For the fiscal year ending JUNE 30, 2003***

The cover picture of a Vermont sunset looking west at Camels Hump was provided by Linda Morse of Middlesex, VT.

*STATE OF VERMONT*

**COMPREHENSIVE  
ANNUAL  
FINANCIAL REPORT**

*For the fiscal year ending JUNE 30, 2003*



*James H. Douglas  
Governor*

*Prepared by the Department of Finance and Management*

*Robert D. Hofmann, Commissioner*

**STATE OF VERMONT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | PAGE      |
|---|-----------|
| <b>INTRODUCTION:</b>  |           |
| Title Page.....   | 1         |
| Table of Contents.....  | 2 - 3     |
| Letter of Transmittal.....  | 4 - 7     |
| Organization Chart.....   | 8 - 9     |
| Selected State Officials.....   | 10        |
| <br><b>FINANCIAL SECTION:</b>   |           |
| Independent Auditor's Report.....   | 12 - 13   |
| Management Discussion and Analysis.....   | 15 - 29   |
| <br><b>Basic Financial Statements:</b>  |           |
| Government-wide Financial Statements:   |           |
| Statement of Net Assets.....  | 34 - 35   |
| Statement of Activities.....  | 36 - 37   |
| Governmental Funds Financial Statements   |           |
| Balance Sheet.....  | 40 - 41   |
| Reconciliation of Governmental Fund balances to Statement of<br>Net Assets - Governmental Activities.....   | 42        |
| Statement of Revenues, Expenditures and Changes in Fund Balances.....   | 44 - 45   |
| Reconciliation of Statement of Revenues, Expenditures and Changes In Fund<br>Balances -Governmental Funds to the Statement of Activities - Governmental Activities..... | 46        |
| Proprietary Funds Financial Statements  |           |
| Statement of Net Assets.....  | 48 - 49   |
| Statement of Revenues, Expenses and Changes in Net Assets.....  | 50 - 51   |
| Statement of Cash Flows.....  | 52 - 53   |
| Fiduciary Funds Financial Statements  |           |
| Statement of Fiduciary Net Assets.....  | 56        |
| Statement of Changes in Fiduciary Net Assets.....   | 57        |
| Component Units Financial Statements  |           |
| Combining Statement of Net Assets.....  | 60        |
| Combining Statement of Activities.....  | 61        |
| Notes to the Financial Statements Index.....  | 63        |
| Notes to the Financial Statements.....  | 64 - 100  |
| <br><b>SUPPLEMENTARY INFORMATION</b>  |           |
| <b>Required Supplementary Information</b>   |           |
| Budgetary Comparison Schedule-General Fund.....   | 102       |
| Budgetary Comparison Schedule-Transportation Fund.....  | 103       |
| Budgetary Comparison Schedule-Education Fund.....   | 104       |
| Budgetary Comparison Schedule-Special Fund.....   | 105       |
| Budgetary Comparison Schedule-Federal Revenue Fund.....   | 106       |
| Notes to Required Supplementary Information-Budgetary Reporting.....  | 107       |
| <br><b>Supplementary Information-Combining and Individual Fund Statements and Schedules:</b>  |           |
| Governmental Funds  |           |
| Nonmajor Governmental Funds   |           |
| Combining Balance Sheet.....  | 112 - 115 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....  | 116 - 119 |

**STATE OF VERMONT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  |           |
|--|-----------|
| Proprietary Funds  |           |
| Nonmajor Enterprise Funds  |           |
| Combining Statement of Net Assets.....                                       | 122 - 123 |
| Combining Statement of Revenues, Expenditures and Changes in Net Assets..... | 124 - 125 |
| Combining Statement of Cash Flows.....                                       | 126 - 127 |
| Internal Service Funds   |           |
| Combining Statement of Net Assets.....                                       | 130 - 133 |
| Combining Statement of Revenues, Expenditures and Changes in Net Assets..... | 134 - 137 |
| Combining Statement of Cash Flows.....                                       | 138 - 141 |
| Fiduciary Funds  |           |
| Pension Trust Funds  |           |
| Combining Statement of Plan Net Assets.....                                  | 144 - 145 |
| Combining Statement of Changes in Plan Net Assets.....                       | 146 - 147 |
| Agency Funds   |           |
| Combining Statement of Changes in Assets and Liabilities.....                | 150 - 152 |
| Component Units  |           |
| Non-major Component Units  |           |
| Combining Statement of Net Assets.....                                       | 154 - 155 |
| Combining Statement of Activities.....                                       | 156       |

**STATISTICAL SECTION (Unaudited):**

|  |           |
|--|-----------|
| Revenue by Source-Major Governmental Funds - Last 10 Fiscal Years.....   | 158 - 159 |
| Expenditures by Function-Major Governmental Funds-Last 10 Years.....   | 158 - 159 |
| State Indebtedness--Procedure for Authorization and Debt Statement as of June 30, 2003.....  | 160 - 162 |
| Ratio of General Obligation Bonded Debt to Assessed Taxable Property Value and General<br>Obligation Bonded Debt Per Capita--Last 10 Fiscal Years..... | 163       |
| Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund<br>Expenditures--Last 10 Fiscal Years.....                     | 164       |
| Ratio of Annual Debt Service Expenditures for Transportation Bonded Debt to Total<br>Transportation Fund Expenditures--Last 10 Fiscal Years.....       | 164       |
| Property Values and Taxes in Vermont--Last 10 Fiscal Years.....  | 165       |
| Demographic Statistics:  |           |
| * Employment.....  | 166       |
| * Vermont Non-Agricultural Wage and Salary Employment by Industry.....   | 167       |
| * Educational Attainment - Vermont vs U.S as of December 2003.....   | 167       |
| Income and Sales Tax Rates--Last 10 Fiscal Years.....  | 168       |
| Vermont's Ten Largest Employers as of September 2003.....  | 169       |



**STATE OF VERMONT  
DEPARTMENT OF FINANCE AND MANAGEMENT  
MONTPELIER, VERMONT 05609-0401**

**LETTER OF TRANSMITTAL**

To the Honorable James H. Douglas, Governor  
The Honorable Brian Dubie, Lieutenant Governor  
Chairs of House Committees on Appropriations, Institutions and Ways and Means,  
Senate Committees on Appropriations, Finance and Institutions, and  
The Citizens of the State of Vermont

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of Vermont for the fiscal year ending June 30, 2003. The Department of Finance and Management prepared this report, which includes the Basic Financial Statements as required by Title 32, Vermont Statutes Annotated, Section 182(a)(8).

This CAFR's financial section contains two reporting features that were introduced last year, and are again worth reviewing. First is the Management and Discussion Analysis (MD&A) that follows the Auditor's opinion. This analysis is designed to give the reader an overview of the State's financial position, described in understandable terms, in order to help the reader better understand the results of operations of Vermont State government.

The second feature, which follows the MD&A, consists of the Basic Financial Statements (BFS), which were prepared in conformity with the generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The BFS contain government-wide statements that present the State's financial activities in a manner similar to that of a private corporation, the fund statements and the note disclosures that follow the government-wide statements. We believe these statements and notes are fairly stated in all material respects and that they are presented in a manner designed to fairly report the State of Vermont's financial position and results of operations and changes in the net assets/fund balances. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the State of Vermont's Department of Finance and Management.

In addition to the MD&A and BFS, this CAFR includes a Required Supplementary Information (RSI) section and a Statistical section. The RSI section contains Budget vs. Actual Schedules; combined fund financial statements that include the State's non-major

Governmental, Proprietary, and Fiduciary Funds, and combined statements for the State's non-major component units. The statistical section presents fiscal, social, and demographic information about the State of Vermont.

Before addressing the topics traditionally covered in this transmittal letter, I will again recognize the obvious. This financial report is significantly late. As many of you know, since taking office in January of 2003, the Administration has worked diligently to resolve problems that developed due to the confluence of two major events in Fiscal Year (FY) 2002:

- Repercussions from the implementation of a new statewide accounting system (VISION) and the resulting technical glitches, steep staff learning curve, pervasive error generation by users, and poor system performance.
- Implementation of GASB Statement Number 34's accounting and reporting standards.

Overcoming these two convergent challenges took an extraordinary amount of time and inevitably resulted in a six-month delay in embarking on the FY 2003 Financial Statements. Additionally the timeline for creating and auditing the attached financial statements was extended by our efforts to compile the first accounting of State of Vermont's Capital Assets by establishing values for thousands of assets, including one thousand parcels of land acquired over the past century. This effort was successful and removed the longstanding audit qualification, which has blemished the State's financial statements for many years.

Other improvements have been accomplished that are prerequisites for putting Vermont back on track for timely financial reporting for FY 2004 and beyond:

- Error rates and the need for resulting rework have declined substantially.
- Year-end closing of the State's financial accounting system, which took 8 months in FY 2002 and 3 months in FY 2003, was accomplished in one month for FY 2004.
- Monthly closings now occur within 10 working days after the end of each month.
- The response time of the State's accounting system improved by two-thirds for several key processes.
- We have reallocated positions to our small financial reporting division. As a result of shifting these resources, we have been able to compile a large percentage of the FY 2004 statements while the attached FY 2003 audit was continuing.

So in conclusion, while the underlying fiscal situation of the State is healthy, particularly in comparison with many other states, the financial reporting process has continued to be challenging. We have instituted much needed changes to improve this situation.

## **The General Fund**

The General Fund, the State's largest operating fund, accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other funds and represents a significant portion of Vermont's financial activity. Tax revenues, principally personal income taxes, sales and use taxes and meals and room taxes constitute approximately 81.62% of the General Fund revenues. The functional assignments for the General Fund expenditures are: General Government, Protection to Persons and Property, Human Services, Employment and Training, General Education, Natural Resources, Commerce and Community Development and Debt Service.

## **Budget Adoption and Legal Compliance/Budgetary Results**

Note 1 describes the State's budgeting process while schedules for the State's five major governmental funds (comparing each fund's original budget, final budget, actual expenditures incurred on a budgetary basis, and the variance between the final budget and actual expenditures) are included as Required Supplementary Information (RSI). As the adopted budget provides legal control over spending, expenditures cannot exceed amounts appropriated under Vermont law. Budgetary control is exercised by type of fund within appropriation.

## **Cash and Investments**

Cash deposits are managed by the State in accordance with the provisions of Title 32, Vermont Statutes Annotated, Sections 431-434, which defines the requirements the Treasurer must adhere to when depositing public monies. The State Treasurer pools substantially all cash except that which is required to be maintained separately in accordance with legal restrictions. Note 2 provides more detail regarding this important area.

## **Risk Management**

The State generally assumes substantially all risk associated with Workers' Compensation, Employee Liability, Employee Health and Life, and General Liability under state law. However, the state has minimized its exposure in several areas by either purchasing commercial insurance coverage or by limiting benefit claim amounts.

## **Independent Audit**

An independent audit was performed by the independently elected State Auditor of Accounts whose "Independent Auditor's Report" is included in the financial section of this CAFR. The audit described is not intended to meet all requirements of the Federal Single Audit Act of 1996. Rather, the Single Audit Report for the State is issued under separate cover.



## Acknowledgements

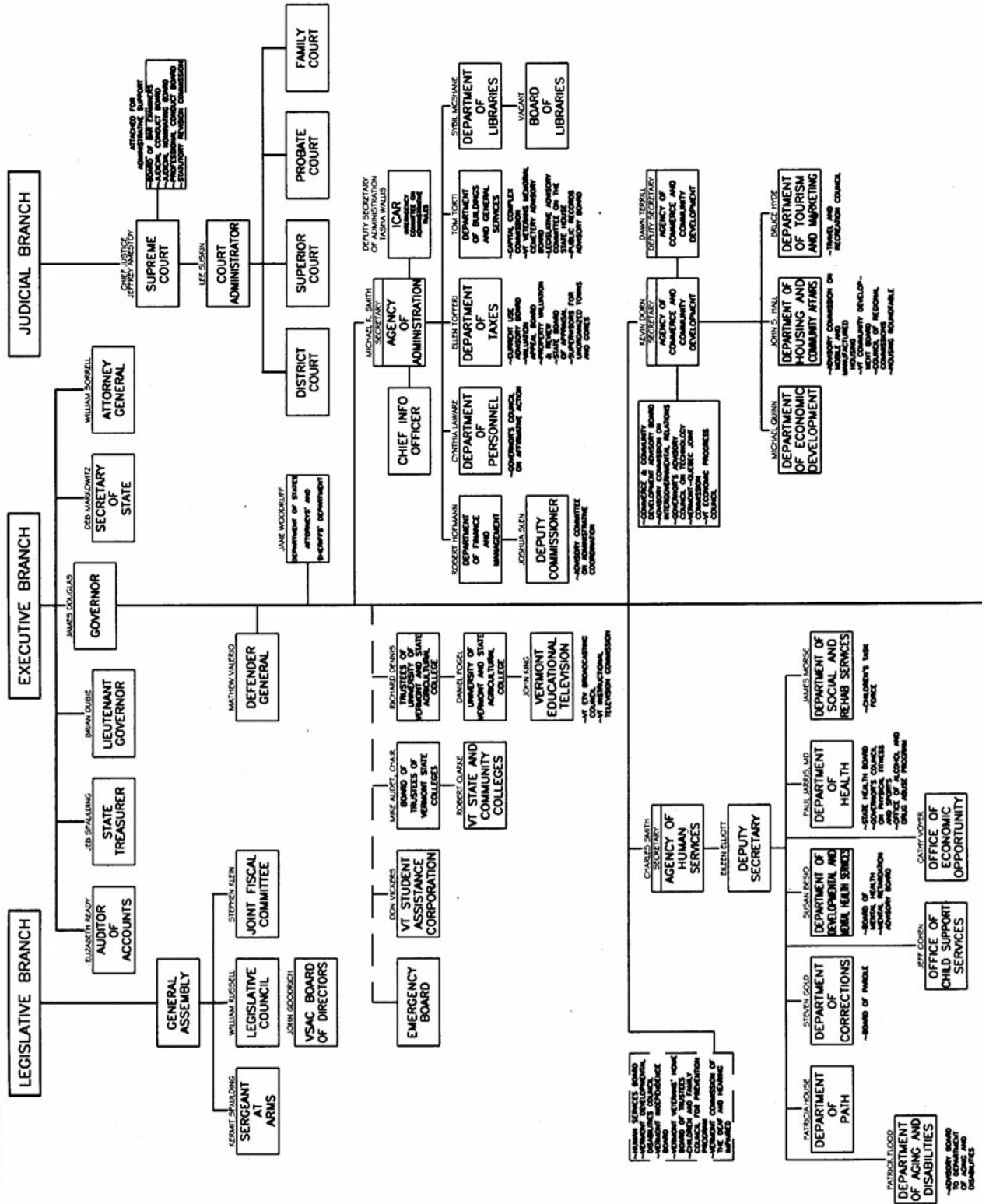
The preparation of this report involved the dedicated work of staff in the Department of Finance and Management, the Treasurer's Office, the Auditor of Accounts' Office and the support of all state agencies and component units, the Legislature, and the Judiciary. We welcome inquiries concerning this report and the finances of the State of Vermont.

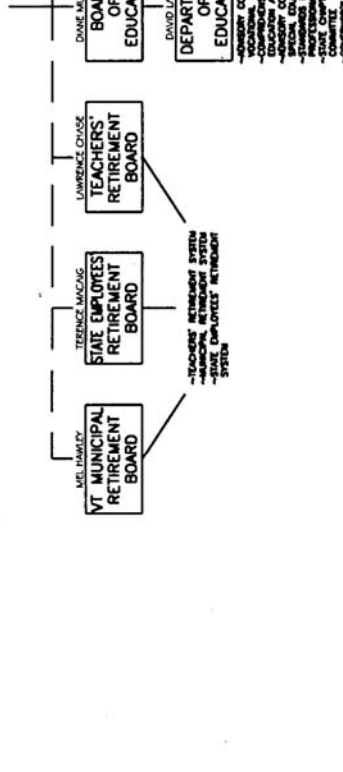
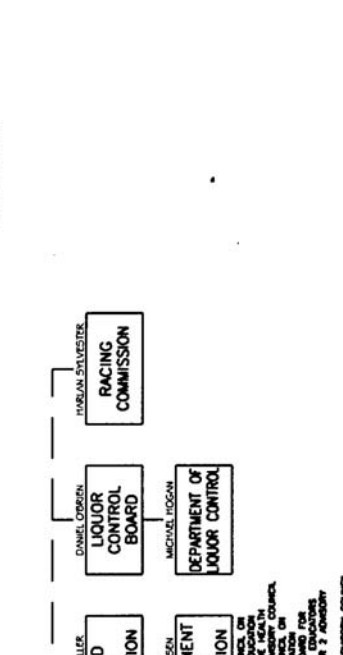
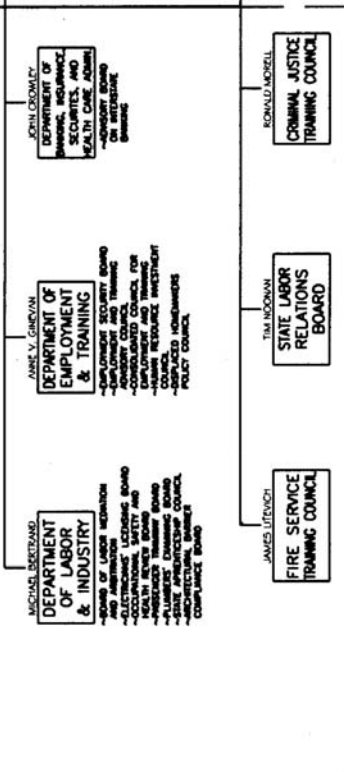
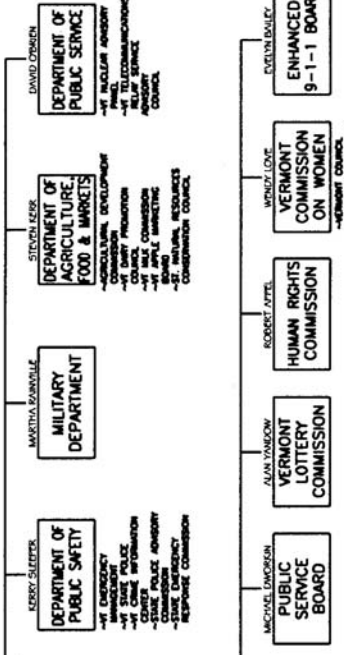
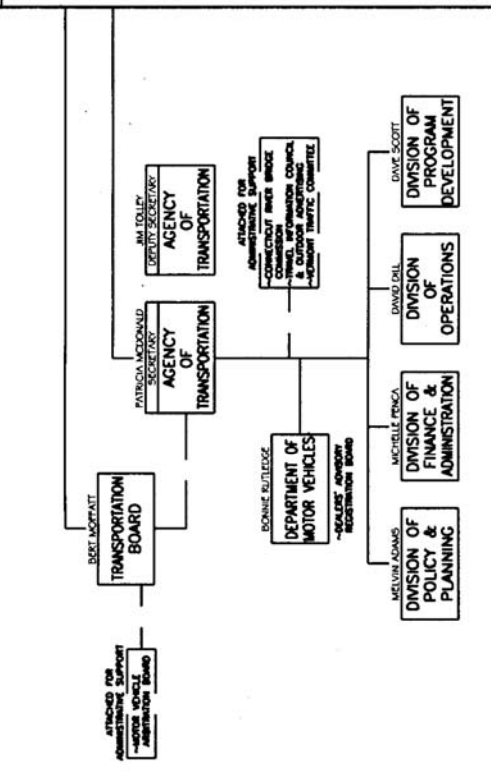
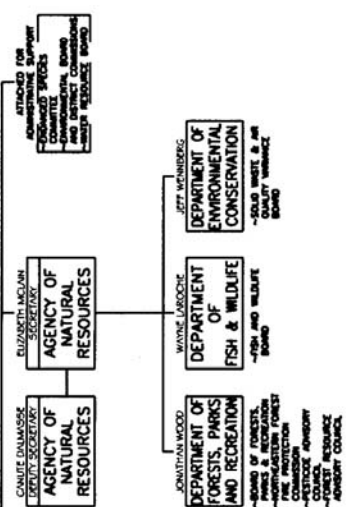
Sincerely,

A handwritten signature in black ink, appearing to read "Robert Hofmann", with a long horizontal flourish extending to the right.

Robert Hofmann  
Commissioner

December 3, 2004





**SELECTED STATE OFFICIALS**  
**As of June 30, 2003**

**EXECUTIVE**

*James H. Douglas*  
*Governor*

*Brian L. Dubie*  
*Lieutenant Governor*

*Deborah L. Markowitz*  
*Secretary of State*

*William H. Sorrell*  
*Attorney General*

*Elizabeth M. Ready*  
*Auditor of Accounts*

*Jeb Spaulding*  
*State Treasurer*

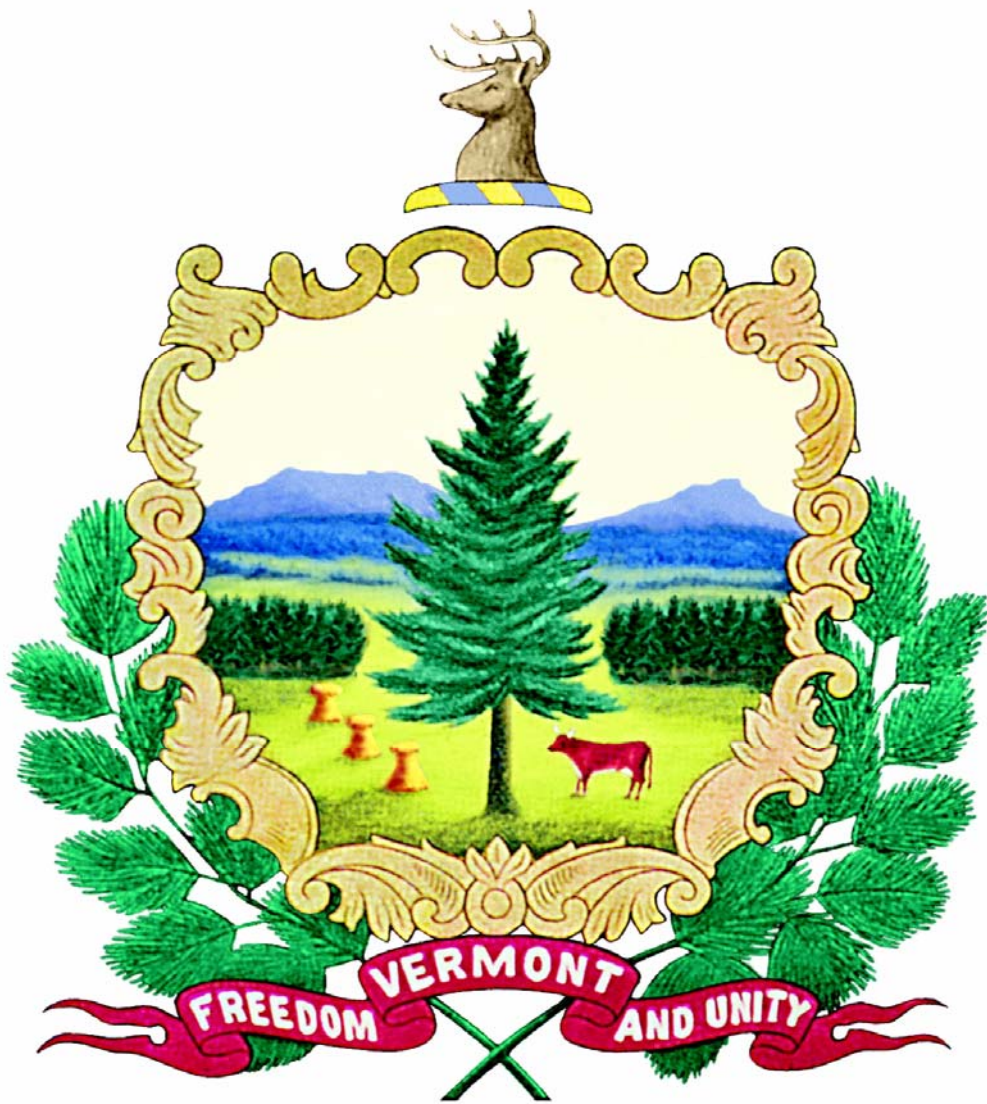
**JUDICIAL**

*Jeffrey L. Amestoy*  
*Chief Justice*

**LEGISLATIVE**

*Peter Welch*  
*President Pro Tempore of the State Senate*  
*(30 Senators)*

*Walter E. Freed*  
*Speaker of the House of Representatives*  
*(150 Representatives)*



***FINANCIAL SECTION***

**ELIZABETH M. READY  
STATE AUDITOR**

STATE OF



VERMONT

**OFFICE OF THE STATE AUDITOR  
132 STATE STREET  
MONTPELIER, VERMONT 05633-5101  
Independent Auditor's Report**

Speaker, House of Representatives  
and  
President Pro-Tem of the Senate  
Governor  
General Assembly, State of Vermont  
State House  
Montpelier, Vermont

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont, as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Vermont's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities and funds that aggregate the following percentages of total assets and revenues:

| <b><u>Opinion Unit</u></b>                                | <b><u>Percentage of<br/>Total Assets</u></b> | <b><u>Percentage of<br/>Total Revenues</u></b> |
|---|--|--|
| <b>Business-Type Activities</b>                           | <b>96.0%</b>                                 | <b>79.4%</b>                                   |
| <b>Aggregate Discretely Presented<br/>Component Units</b> | <b>100.0%</b>                                | <b>100.0%</b>                                  |
| <b>Aggregate Remaining Funds</b>                          | <b>4.6%</b>                                  | <b>1.0%</b>                                    |

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities and funds, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The financial statements of the Special Environmental Revolving Fund (blended into the Federal Revenue Fund), the Vermont State Infrastructure Bank (blended into the Transportation Fund) and the Vermont Sustainable Jobs Fund (a discretely presented component unit) were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

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State Auditor & Deputy  
(802) 828-2281  
Toll Free: 1-877-290-1400

Fax: (802) 828-2198  
Website: [www.state.vt.us/sao](http://www.state.vt.us/sao)  
email: [auditor@sao.state.vt.us](mailto:auditor@sao.state.vt.us)

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information for the State of Vermont as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the Financial Statements, the State of Vermont changed its method of calculating Medicaid liabilities and personal income tax revenue in fiscal year 2003.

Management's Discussion and Analysis on pages 15 through 29, and the budget to actual – budgetary basis schedules on pages 102 through 107 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Vermont's basic financial statements. The combining, individual fund and account group financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 13, 2004, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain laws and regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

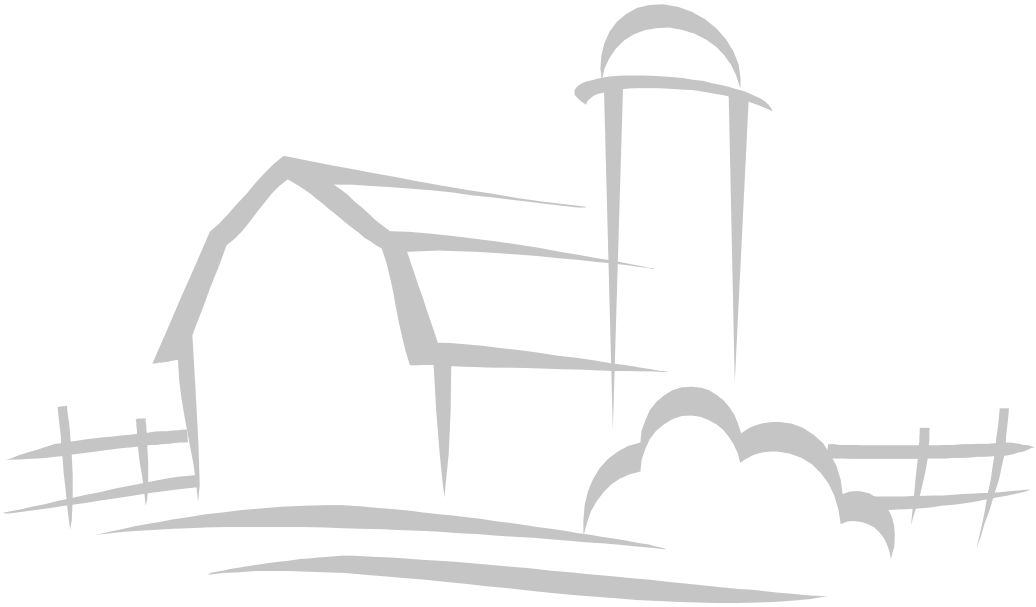
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Elizabeth M. Ready  
State Auditor

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December 13, 2004

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*Vermont*



## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2003. This MD&A section is meant to present an easily readable overview and highlights occurring within Vermont during fiscal year 2003. Please read this in conjunction with the transmittal letter found at the front of this report and the financial statements that follow this section. Note that fiscal year 2003 is the first year that Vermont has implemented the comparison requirements of the Governmental Accounting Standards Board's Statement Number 34 (GASB No. 34).

### FINANCIAL HIGHLIGHTS

**Government-Wide Primary Government** - Net assets (assets minus liabilities) of Vermont's primary government at June 30, 2003 totaled \$1.117 billion, a decrease of \$61 million as compared to fiscal year 2002's restated net asset balance of \$1.178 billion. Fiscal year 2002 restatement consists of an increase of \$34 million that was due almost entirely to an increase in reportable capital assets.

The governmental activities total fiscal year 2003 net asset balance of \$848.8 million includes a negative \$169.4 million reported as unrestricted net assets at June 30, 2003. This balance compares to a negative restated unrestricted net asset balance of \$52.9 million at June 30, 2002, a decrease of \$116.5 million. This decrease can be attributed primarily to an increase in the investment in capital assets as reported in the net assets section of the Statement of Net Assets. Unrestricted net assets represent the amount available to be used to meet the State's ongoing obligations to citizens and creditors that has not previously been invested in fixed assets or externally restricted for specific purposes.

The business-type activities for fiscal year 2002 were likewise restated for a change in the inventory valuation in the Federal Surplus Property Fund from a restricted net asset to deferred revenue of \$479,005, which accounts for almost all of the decline in unrestricted net asset value.

Changes In Net Assets – Of the primary government's total decrease in net assets of \$60.2 million (5.11%) in fiscal year 2003, net assets related to governmental activities decreased by \$10.5 million (1.22%) and net assets related to business-type activities decreased by \$49.7 million (15.61%).

**Discretely Presented Component Units** - reported net assets of \$740.4 million, an increase of \$38.4 million over fiscal year 2002. The greatest portion of this increase can be attributed to increased program revenue in "Charges For Services" and "Operating Grants and Contributions" of \$6.8 million and \$22.9 million respectively; and a one time extraordinary gain on forgiveness of debt of \$7.5 million owed by the Vermont Economic Development Authority to the State of Vermont.

**Fund Level** - Governmental Funds – Fund Balances – As of the close of fiscal year 2003, the State's governmental funds reported a combined ending fund balance of \$251.4 million, a decrease of \$88.1 million over a restated 2002 balance of \$339.5 million. Of this total amount, \$152.1 million represents "unreserved fund balances". Of this \$152.1 million, \$37.3 million is categorized as "designated for specific purposes in the capital projects funds leaving \$114.8 million categorized as "unreserved and undesignated." This \$114.8 million is the amount available for appropriation in the following year and represents 3.75% of FY2003 governmental expenditures. In comparison, fiscal year 2002's "unreserved and undesignated" amount was \$181.9 million which represented 5.95% of the total governmental fund expenditures for that year.

#### Long-term Debt

Vermont's primary government's total long-term liabilities increased by \$0.8 million during fiscal year 2003. General Obligation Bonds and Notes Payable outstanding decreased by \$12.7 million while increases in the net pension obligation of \$7.3 million and judgments of \$5.4 million account for the majority of the increases in long-term liability. See Note 19 – Changes in Long-term Liabilities for more information.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Vermont's Comprehensive Annual Financial Report (CAFR), which includes basic financial statements (BFS), required supplementary information (RSI), other supplementary information and statistical information. Vermont's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. These components are described below.

### Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the **government-wide financial statements** and the **fund financial statements and component unit's financial statements**. The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this analysis. **Notes to the financial statements** provide explanations and/or additional detail for both of the above type financial statements and are considered an integral part of the financial reporting package.

### Government-Wide Financial Statements

Vermont's government-wide financial statements are designed to present a broad view of the State's operations and financial position in a manner somewhat analogous to a private-sector business. These statements contain both short-term and long-term information about the State's financial position and assist in assessing the State's economic condition at the end of each fiscal year. The State prepares these statements using the "flow of economic resources" measurement focus and the accrual basis of accounting. This basically means that the methods utilized to prepare these statements are similar to those used by most private sector businesses in preparing their financial statements. They take into account all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting or possibly affecting the financial condition of the State, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents both the primary governments and its component units' assets and liabilities, with the difference between the assets and liabilities reported as "net assets". Over time, increases or decreases in the Primary Government's net assets may serve as an indicator as to whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents the financial activity and hence, the reason(s) for the changes in net assets during the reported fiscal year. All changes in financial activities are recognized as soon as the underlying event(s) giving rise to the changes occur, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not result in cash flows until future fiscal periods. This statement also presents the relationship between the State's major expenditure functions and the associated sources of program revenues associated with each expenditure function.

Both of the above financial statements segregate Vermont's financial activity into the following three different categories. The governmental activities and business-type activities are combined to report on what is termed primary government activities which is separate and distinct from the activities of the discretely presented component units.

### Primary Government Activities

*Governmental Activities* – The financial activities reported in this section generally represent those services (functions) normally performed by a government entity. These activities include public education, general government, public health services, legal and judiciary services, natural resources, public safety, regulatory services, social services, and public transportation. Taxes, grants, and intergovernmental revenues are the main sources of funding for these activities.

*Business-Type Activities* – These business-type activities of the State include the operations of Vermont’s enterprise activities. These activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. Activities categorized as major include the unemployment compensation trust fund program, liquor control, and the state lottery commission. Non-major activities include the federal surplus property program, publishing Vermont Life magazine, making equipment loans to municipalities, and several other activities. These activities normally recover all or a portion of their costs through user fees and charges to the external consumers of their goods and services, much like a private business.

### **Component Units Activities**

*Discretely Presented Component Units* – These are legally separate (incorporated) entities for which the elected officials of the primary government have financial accountability. The State’s discretely presented component units are presented in the aggregate in the government-wide statements. This aggregate total consists of three major and eight non-major component units. This categorization is determined by the relative size of the entities’ assets, liabilities, revenues and expenses in relation to the total of all component units. Additional information or financial statements for each of these individual component units can be obtained from their respective administrative offices. Addresses and additional information about the State’s component units are presented in Note 1 to the financial statements.

The government-wide financial statements can be found immediately following this management’s discussion and analysis.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Vermont’s government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus and report on individual parts of the State government in more detail than the government-wide statements. All of the funds of the State can be divided into three categories: governmental, proprietary, and fiduciary. For the governmental and proprietary funds, the major funds are reported in individual columns in the fund financial statements while the non-major funds are presented in a consolidated column in the fund financial statements. Combining schedules or statements in the Supplementary Information section present detailed non-major fund activity. Fiduciary Funds are reported by fiduciary type (pension trust, private purpose trusts and agency funds) with combining schedules or statements for the individual pension and agency funds presented in the Supplementary Information section. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

### **The three categories of funds are:**

*Governmental Funds* – Most of the basic services provided by the State are accounted for in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as the balances of spendable resources available at the end of the fiscal year. This approach uses the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State’s finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the time period focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Schedules reconciling the governmental funds’ Balance Sheet and Statement of

Revenues, Expenditures, and Changes in Fund Balances to their respective government-wide statements are provided on the pages immediately following each governmental fund financial statement to facilitate this comparison.

The State reports seventeen governmental funds of which five are classified as “major” governmental funds. These major funds include the General Fund, Transportation Fund, Education Fund, Special Fund, and Federal Revenue Fund. Each major fund is presented in a separate column in the Governmental Fund Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balance. The “non-major” governmental funds include the Fish and Wildlife Fund, two capital projects funds, and nine Permanent Funds and are presented in one consolidated column in the governmental fund statements. Combining and individual non-major governmental fund statements are reported in the supplementary information section of this report.

The governmental funds financial statements can be found immediately following the government-wide financial statements.

*Proprietary Funds* – This category of funds includes enterprise funds (business-type) and internal service funds and report activities that operate much like those of commercial enterprises. These funds’ financial reports include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes In Net Assets; and a Statement of Cash Flows.

Enterprise funds account for services provided to the general public, federal government, and non-state government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. Because these funds’ activities primarily benefit governmental activities, they have been combined with the governmental activities in the government-wide statements.

Proprietary funds provide the same type of information as the business-type activities section in the government-wide financial statements, only in more detail. Like the government-wide financial statements, enterprise fund financial statements use the accrual basis of accounting, hence there is no reconciliation needed between the government-wide financial statements for business-type activities and the enterprise fund financial statements.

The State reports nine enterprise funds of which three are reported as major funds in separate columns on the proprietary fund statements. These three are the Unemployment Compensation Fund, the Liquor Control Fund, and the Vermont Lottery Commission. The other six enterprise funds are reported as “non-major funds” and are consolidated into one column on the proprietary fund statements.

The State reports twenty-one internal service funds which are reported in one consolidated column entitled “Governmental Activities – Internal Service Funds Total” on the Proprietary Funds Statement of Net Assets; Statement of Revenues, Expenses, and Changes In Net Assets; and Statement of Cash Flows.

The proprietary funds financial statements can be found immediately following the governmental fund financial statements. Combining non-major enterprise and combining internal service fund statements may be found in the supplementary information section.

*Fiduciary Funds* – These funds are used to account for resources held by the State for the benefit of parties outside of state government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State’s own programs. They use the accrual basis of accounting.

The State's fiduciary funds are divided into the following three basic categories: the Pension Trust Funds (six separate retirement plans for employees); the Private Purpose Trust Funds (which report only the Unclaimed Property Fund); and the Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals).

The fiduciary funds financial statements can be found immediately following the proprietary funds financial statements. Individual pension trust funds and agency funds financial statements are reported in the supplementary information section of this report.

### **Discretely Presented Component Units' Financial Statements**

As mentioned previously, the State has included the net assets and activities of three major and nine non-major component units in a single column of such statements labeling them as discretely presented component units. The component units' financial statements can be found immediately after the fiduciary funds. Combining non-major component units' financial statements can be found in the supplementary information of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

### **Required Supplementary Information Other Than MD&A**

The basic financial statements are followed by a section of required supplementary information. This section includes:

Schedules for the General Fund and each major Special Revenue Fund comparing their original budgeted amounts; final budgeted amounts; actual inflows, outflows, and balances stated on the budgetary basis; and variances between the final budgeted amounts and actual amounts presented on a budgetary basis.

Notes to Required Supplementary Information include a schedule reconciling the statutory fund balance presented on a budgetary basis to the fund balance prepared on a modified accrual basis as presented in the governmental fund financial statements for each major governmental fund.

## **OTHER SUPPLEMENTARY INFORMATION**

### **Combining Financial Statements**

The combining fund financial statements referred to earlier in connection with non-major funds and non-major component units are presented following the required supplementary information (RSI). The total columns of these combining financial statements carry to the applicable fund financial statement. These combining statements include the following:

- Non-major governmental funds
- Non-major proprietary (enterprise) funds
- Internal service funds
- Fiduciary funds
- Non-major component units

### **Statistical Data**

The data reported in this section includes the following:

- A ten-year comparison of revenues by source and expenditures by function- general and major special revenue funds
- A discussion of state indebtedness and procedure for authorization for issuing debt
- A ten-year comparison of general obligation bonded debt to assessed taxable property

value and general obligation bonded debt per capita  
A ten-year comparison of annual debt service expenditures for bonded debt to fund  
expenditures – General Fund and Transportation Fund  
A ten-year comparison of property values and taxes in Vermont  
Demographic Statistics  
Income and Sales Tax Rates – ten-year comparison  
Vermont's largest employers as of September 2003

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The primary government's (government and business-type activities) combined net assets totaled \$1.117 billion at the end of 2003, compared to a restated \$1.178 billion at the end of the previous year, a 5.11% decrease. The 2002 restatement consisted of a \$34 million increase in the governmental activities area due primarily to an increase of \$34 million in net book value of capital assets and a \$479,005 decrease in the restricted net assets for the inventory in the Federal Surplus Property Fund in the business-type activity area, which was reclassified to deferred revenue.

The largest portion of the primary government's net assets (83.09%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt still outstanding that was used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the primary government's net assets (24.53%) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets.

The governmental activities' negative unrestricted net assets balance is mainly the result of debt issued by the State for municipal, non-profit or component unit capital purposes that does not result in a governmental activities' capital asset and the statutorily mandated restricting of net assets for the budget stabilization reserves.

The business activities' positive unrestricted net asset balance may be used to meet the State's ongoing obligation to its citizens and creditors.

At the end of fiscal year 2003, the State reported positive total net asset balances in its governmental activities, business-type activities, and discretely presented component units.

The following condensed financial statement information is derived from the State's government-wide June 30, 2003 and 2002 financial statements. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

TABLE 1  
NET ASSETS  
(In Millions)

|  | Governmental<br>Activities |                 | Business-type<br>Activities |                 | Total<br>Primary Government |                   |
|--|----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-------------------|
|  | 2003                       | 2002*           | 2003                        | 2002*           | 2003                        | 2002*             |
| Current assets                             | \$ 519.5                   | \$ 502.9        | \$ 282.7                    | \$ 332.1        | \$ 802.2                    | \$ 835.0          |
| Other assets                               | 203.5                      | 247.7           | 1.6                         | 1.9             | 205.1                       | 249.6             |
| Capital assets                             | 1,088.4                    | 964.0           | 0.5                         | 0.5             | 1,088.9                     | 964.5             |
| Total assets                               | <u>1,811.4</u>             | <u>1,714.6</u>  | <u>284.8</u>                | <u>334.5</u>    | <u>2,096.2</u>              | <u>2,049.1</u>    |
| Long-term debt outstanding                 | 596.6                      | 435.1           | 1.0                         | -               | 597.6                       | 435.1             |
| Other liabilities                          | 366.0                      | 453.8           | 15.1                        | 15.6            | 381.1                       | 469.4             |
| Total liabilities                          | <u>962.6</u>               | <u>888.9</u>    | <u>16.1</u>                 | <u>15.6</u>     | <u>978.7</u>                | <u>904.5</u>      |
| Net assets:                                |                            |                 |                             |                 |                             |                   |
| Invested in capital assets,<br>net of debt | 928.0                      | 784.0           | 0.5                         | 0.5             | 928.5                       | 784.5             |
| Restricted                                 | 90.2                       | 94.3            | 265.0                       | 314.7           | 355.2                       | 409.0             |
| Unrestricted (deficit)                     | (169.4)                    | (52.6)          | 3.1                         | 3.6             | (166.3)                     | (49.0)            |
| Total net assets                           | <u>\$ 848.8</u>            | <u>\$ 825.7</u> | <u>\$ 268.6</u>             | <u>\$ 318.8</u> | <u>\$ 1,117.4</u>           | <u>\$ 1,144.5</u> |

\* Fiscal year 2002 has not been restated. Only fiscal year 2003's beginning balances has been changed.

### Changes in Net Assets

Vermont's primary government's total net assets decreased \$60.2 million (5.11%) during fiscal year 2003. Taxes provided 47.56% of the government's total revenue while 31.31% came from operating and capital grants and contributions (including federal aid). Charges for programs and general revenues other than taxes provided the remaining 21.13% of the total revenues. The primary government's expenses cover a range of services. The largest expenses were incurred in the areas of education (34.83%), human services (40.66%), and transportation (8.10%).

In 2003, governmental activities' expenses exceeded associated program revenues by \$1.65 billion, resulting in the use of approximately \$1.65 billion in general revenues and transfers (mostly taxes) to cover the shortfall.

During fiscal year 2003, business-type activities' expenses (\$231.3 million) exceeded related program revenues (\$180.2 million) by \$51.1 million. Investment earnings of \$18 million partially offset the program revenue shortfall.

The following condensed table entitled "Changes In Net Assets" presents a comparison of activity for the fiscal years ended June 30, 2003 and 2002 and contains primary government data only.

TABLE 2  
CHANGES IN NET ASSETS  
(In Millions)

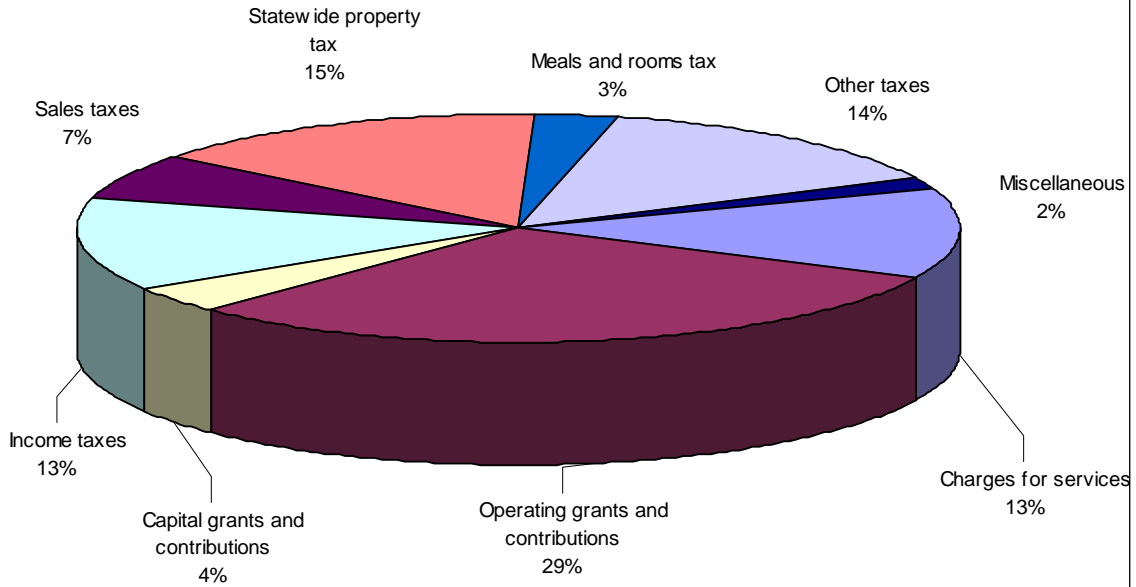
|  | Governmental<br>Activities |                 | Business-type<br>Activities |                 | Total<br>Primary Government |                   |
|--|----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-------------------|
|  | 2003                       | 2002*           | 2003                        | 2002*           | 2003                        | 2002*             |
| <b>Revenues</b>                                |                            |                 |                             |                 |                             |                   |
| Program Revenues:                              |                            |                 |                             |                 |                             |                   |
| Charges for services                           | \$ 211.6                   | \$ 195.8        | \$ 180.2                    | \$ 184.4        | \$ 391.8                    | \$ 380.2          |
| Operating grants and contributions             | 935.2                      | 831.1           | -                           | -               | 935.2                       | 831.1             |
| Capital grants and contributions               | 116.0                      | 144.4           | -                           | -               | 116.0                       | 144.4             |
| General Revenues                               |                            |                 |                             |                 |                             |                   |
| Income taxes                                   | 404.9                      | 429.4           | -                           | -               | 404.9                       | 429.4             |
| Sales taxes                                    | 205.2                      | 217.7           | -                           | -               | 205.2                       | 217.7             |
| Statewide property tax                         | 453.9                      | 424.2           | -                           | -               | 453.9                       | 424.2             |
| Meals and rooms tax                            | 95.4                       | 100.6           | -                           | -               | 95.4                        | 100.6             |
| Other taxes                                    | 437.6                      | 385.7           | -                           | -               | 437.6                       | 385.7             |
| Miscellaneous                                  | 37.6                       | 37.9            | 18.0                        | 19.9            | 55.6                        | 57.8              |
| <b>Total Revenues</b>                          | <b>2,897.4</b>             | <b>2,766.8</b>  | <b>198.2</b>                | <b>204.3</b>    | <b>3,095.6</b>              | <b>2,971.1</b>    |
| <b>Expenses</b>                                |                            |                 |                             |                 |                             |                   |
| General government                             | 51.6                       | 87.4            | -                           | -               | 51.6                        | 87.4              |
| Protection to persons and property             | 186.8                      | 173.2           | -                           | -               | 186.8                       | 173.2             |
| Human services                                 | 1,186.0                    | 1,046.6         | -                           | -               | 1,186.0                     | 1,046.6           |
| Employment and training                        | 27.9                       | 26.0            | -                           | -               | 27.9                        | 26.0              |
| General education                              | 1,097.0                    | 1,035.8         | -                           | -               | 1,097.0                     | 1,035.8           |
| Natural resources                              | 69.5                       | 71.4            | -                           | -               | 69.5                        | 71.4              |
| Commerce and community<br>development          | 33.8                       | 36.8            | -                           | -               | 33.8                        | 36.8              |
| Transportation                                 | 236.2                      | 257.5           | -                           | -               | 236.2                       | 257.5             |
| Public service enterprises                     | 1.9                        | 2.0             | -                           | -               | 1.9                         | 2.0               |
| Interest on long-term debt                     | 26.3                       | 23.5            | -                           | -               | 26.3                        | 23.5              |
| Business-type expenses                         | -                          | -               | 231.3                       | 190.3           | 231.3                       | 190.3             |
| <b>Total Expenses</b>                          | <b>2,917.0</b>             | <b>2,760.2</b>  | <b>231.3</b>                | <b>190.3</b>    | <b>3,148.3</b>              | <b>2,950.5</b>    |
| <b>Increase (decrease) in net assets</b>       |                            |                 |                             |                 |                             |                   |
| before transfers                               | (19.60)                    | 6.60            | (33.10)                     | 14.00           | (52.70)                     | 20.60             |
| Transfers                                      | 16.60                      | 16.90           | (16.60)                     | (16.90)         | -                           | -                 |
| Gain (loss) - extraordinary items              | (7.50)                     | -               | -                           | -               | (7.50)                      | -                 |
| <b>Change in net assets</b>                    | <b>(10.5)</b>              | <b>23.5</b>     | <b>(49.7)</b>               | <b>(2.9)</b>    | <b>(60.2)</b>               | <b>20.6</b>       |
| Net assets, beginning of year<br>(as restated) | 859.3                      | 802.2           | 318.3                       | 321.7           | 1,177.6                     | 1,123.9           |
| <b>Net assets, end of year</b>                 | <b>\$ 848.8</b>            | <b>\$ 825.7</b> | <b>\$ 268.6</b>             | <b>\$ 318.8</b> | <b>\$ 1,117.4</b>           | <b>\$ 1,144.5</b> |

\* Fiscal Year 2002's activity has not been restated. Only fiscal year 2003's beginning balances has been changed.

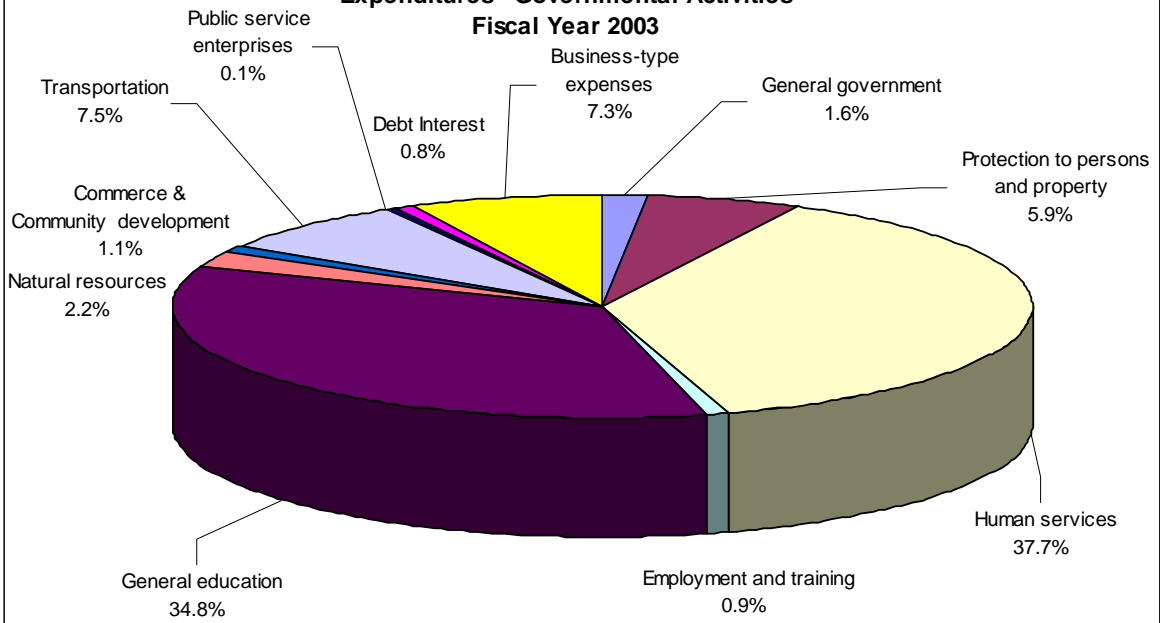
The graphs depicted on the following pages illustrate the Primary Government Activities of revenues and expenditures for Fiscal Year 2003 from the table titled "Changes In Net Assets". Also included is a comparison of revenues and expenditures for fiscal years 2003 and 2002. As indicated above, the activity for fiscal years ended June 30, 2003 and 2002 contains primary government data only.

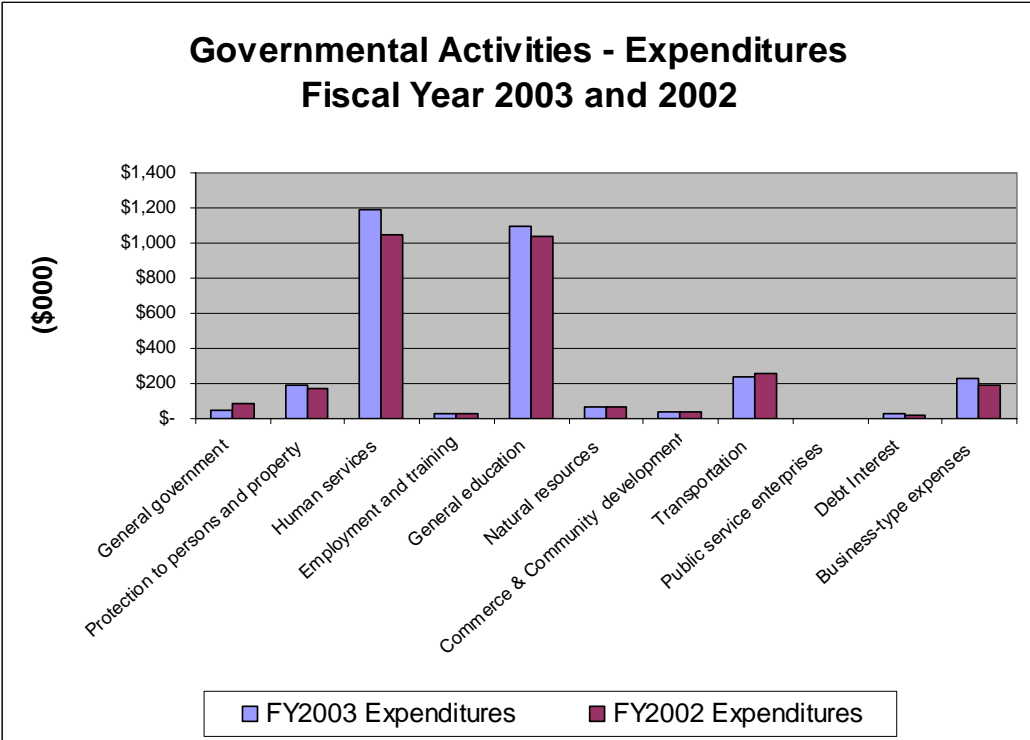
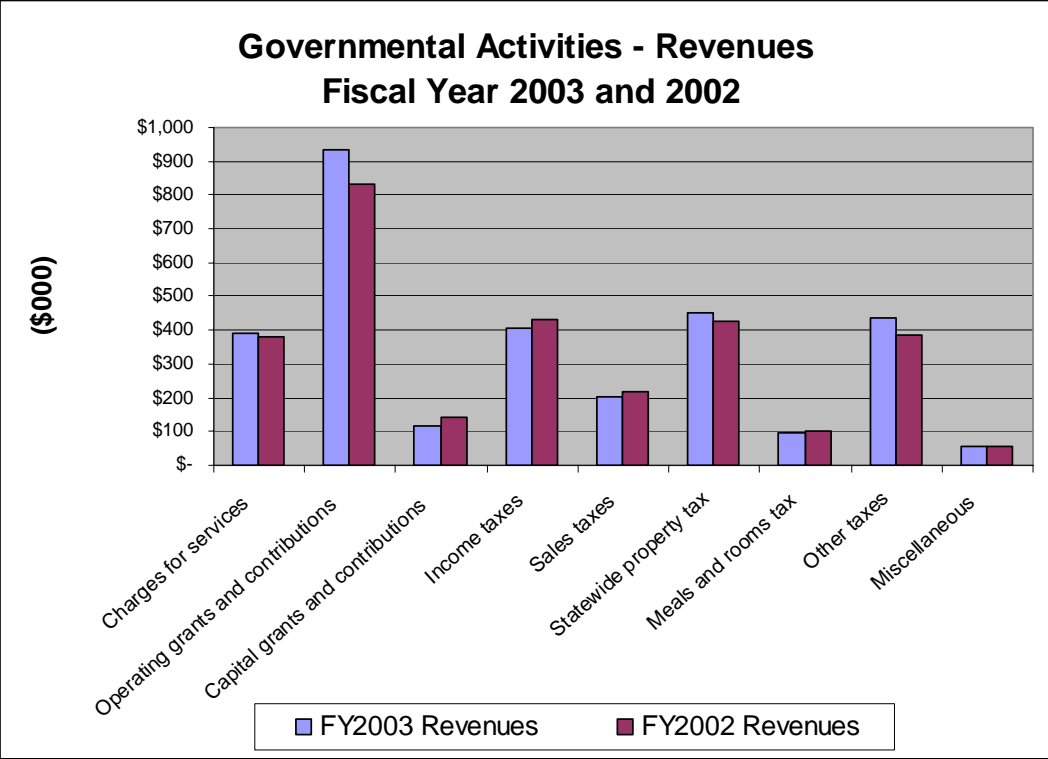


**Revenues - Governmental Activities  
Fiscal Year 2003**



**Expenditures - Governmental Activities  
Fiscal Year 2003**





## FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State uses fund accounting to account for its ongoing operations and to demonstrate compliance with finance-related legal requirements imposed by both legislative mandates as well as externally imposed restrictions.

### Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's uncommitted net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2003, the State's governmental funds reported combined ending fund balances of \$251.4 million. The unreserved portion of this fund balance is \$152.1 million or 60.5 %, which is available for spending in the coming year. The remainder of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders of the prior fiscal year (\$19.9 million); 2) for human caseload management (\$17.2 million), 3) to be held in permanent trust funds for education, wildlife and prevention of tobacco related health issues (\$7.4 million), 4) for budget stabilization purposes (\$43.8 million), or 5) for a variety of other restricted purposes (\$10.9 million).

### General Fund

The general fund is the chief operating fund of the State. At the end of fiscal year 2003, the unreserved fund balance of the general fund was \$47.1 million which is a \$50.8 million (51.89%) decrease compared to the \$97.9 million balance at the end of fiscal year 2002. The total fund balance at June 30, 2003 was \$99.8 million, a decrease of \$49.8 million or 33.29% compared to the balance of \$149.6 million at June 30, 2002. Of this total fund balance, \$52.7 million is reserved for various purposes including \$23.6 million in the budget stabilization fund and \$17.2 million for human caseload management.

This decline in fund balance measurement can be attributed to a decline of \$54.3 million in total revenues, led by a \$73.9 million (16.68%) decline in personal income tax revenue. This decline in revenues was offset by a \$39.9 million (6.35%) decrease in general fund expenditures overall. Reduced human services expenditures totaling \$39.7 million, consisting mostly of the State's share of Medicaid funding which now comes from the special fund, accounted for most of this decrease.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. The unreserved portion of its fund balance (\$47.1 million) represents 8% of its total fund expenditures (\$588.2), down from 15.59% in 2002 while its total fund balance (\$99.8 million) represents 16.96% of its total expenditures (\$588.2) down from 23.82% in 2002, both measured on a GAAP basis.

### Transportation Fund

The Transportation Fund experienced a \$22.5 million decrease in total revenues from FY2002 to FY2003. Federal grant revenue decreased \$30.4 million. Revenue categories that realized increased revenue include motor fuel tax (\$1.6 million); fees (\$1.3 million); and non-business licenses (\$5.9 million.)

Total expenditures decreased \$30.5 million from FY2002 to FY2003 with a decrease of \$26.5 million in the area of federal grant transportation expenditures constituting the largest part of the decrease and resulting from the decrease in federal grants expenditures. Decreases in expenditures in protection to persons and property of \$3 million accounted for the majority of the remaining decrease.

Finally, transfers in to the transportation fund primarily from the general fund decreased \$13.9 million while transfers out of the transportation fund to the general fund increased \$7.2 million resulting in a

\$21.1 million decrease in other financing sources (uses) to the transportation fund. All of the above activity resulted in a net decrease of \$11.9 million in the fund balance from FY2002 to FY2003.

### **Education Fund**

The education fund experienced a decrease in the unreserved portion of its fund balance amounting to \$7.1 million as well as a decline in its total fund balance of \$10.2 million. It also decreased its budget stabilization reserve by \$3.2 million.

The education fund's fiscal year 2003 revenues were up \$39.2 million due mostly to increases in both statewide and local property tax revenue totaling \$38.4 million. Its educational expenditures also were up by \$20 million as the result of increased appropriations which resulted in a reduction in operating loss of \$19.2 million as compared to fiscal year 2002. Net "transfers in" from other funding sources declined by \$11.3 million during fiscal year 2003.

The financial activity resulted in an overall decrease in the education fund's fund balance of \$10.2 million at June 30, 2003 as compared to 2002. The budget stabilization reserve decreased by \$3.2 million while the unreserved portion of its fund balance declined by \$7.1 million. These decreases have resulted in the unreserved undesignated component of the fund balance being reported as a net deficit of \$4.1 million. This component of the fund balance represents assets that have not been designated for specific purposes by the legislature.

### **Special Fund**

As of July 1, 2002, the Vermont Rehabilitation Corporation's classification was changed from that of a special fund to a discretely presented non-major component unit. This reclassification resulted in a decrease of approximately \$276,000 in the special fund's fiscal year 2003 beginning fund balance.

During fiscal year 2003, total revenue increased by \$44.4 million with \$27.8 million of this increase due to an increase in cigarette tax revenue; the result of an increase in the applicable tax rate. New insurance fees imposed by the Department of Banking, Insurance, Securities and Health Care Administration (BISHCA) accounted for an additional \$9.9 million of the increase.

Total expenditures increased by \$100.6 million (41%) with the Agency of Human Services Medicaid program accounting for the largest portion of the increase (\$87 million). This resulted in the State's 2003 share of Medicaid now being completely funded by the special fund whereas the general fund had funded a portion of it in 2002. An increase of \$9.6 million in general education expenditures and \$4.4 million increase in protection to persons and property account for the majority of the remaining increase in 2003.

### **Federal Revenue Fund**

The activity in this fund reports all federal grant activity transacted in the State except for federal grants associated with transportation and fish and wildlife. Federal grant activity for these two areas is reported in the Transportation Fund and Fish and Wildlife Fund respectively. For fiscal year 2003, total revenue increased \$102.8 million due primarily to an increase in Federal Medicaid grant revenue. Total expenditures were up \$102.6 million with human services and education expenditures accounting for \$89.1 million and \$15.9 million respectively. The fund balance has remained quite stable decreasing only \$65,284 from FY2002 to FY2003.

### **Proprietary Funds**

#### **Enterprise Funds**

The State's enterprise funds provide the same type of information found in the business-type activities section in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund is the largest of the enterprise type funds accounting for more than 98.6% of the total net assets reported by the enterprise funds. However, The Unemployment Compensation Trust Fund's total net assets decreased from \$314.2 million at June 30, 2002 to \$265 million at June 30, 2003.

This decrease was the result of operating expenditures (\$130.3 million) being more than double the amount of revenue received (\$63.6 million.) This operating deficit was moderated somewhat by the receipt of \$17.5 million in investment income.

### **Internal Service Funds**

A new fund, the Financial and Human Resources (HR) Information Fund was reported in the internal service funds for fiscal year 2003. This new fund added \$3.1 million revenue and \$3.7 million of expenses that were not reported in 2002.

The internal service funds' total net assets at June 30, 2003 were \$15.3 million, down from \$19.7 million at June 30, 2002. There was no one fund that accounted for this decrease, but Facilities Operations Fund contributed a loss of \$3.1 million and Property Management fund contributed a loss of \$1.4 million. The remaining funds had both positive and negative contributions. The new fund contributed a loss of \$0.6 million.

Operating Revenue increased \$15.6 million to \$152.4 million during fiscal year 2003. The major contributors to this increase include the medical insurance fund (\$6.3 million) and the Financial and HR Information Fund (\$3.1 million), and the Facilities Operations Fund (\$2.4 million).

Fiscal year 2003's operating expenses totaled \$156.5 million which was an increase of \$25.4 million over fiscal year 2002's operating expenses and, of which the medical insurance fund contributed \$68.9 million (44.1%) and the Financial & Human Resources Information Fund \$3.7 million of the increase. Additionally, in fiscal year 2003, operating expenses of \$156.5 million exceeded operating revenues of \$152.4 million by \$4.1 million.

Finally, it should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

### **ANALYSIS OF GENERAL FUND BUDGET HIGHLIGHTS**

Differences between the general fund's original and final budget resulted in a \$40.4 million increase in expenditures and can be briefly summarized as follows:

- Protection to Persons and Property received \$8 million in supplemental appropriations for increased expenses in providing police protection and in the judiciary budget.
  - Human Services received \$21 million in supplemental appropriations for increased expenses. For fiscal year 2003, Human Services' original budgeted amount was reduced from 2002's appropriation due to the fact that beginning in FY2003, Medicaid was to be funded with special fund and federal revenues fund sources only, thereby reducing budgeted general fund.
  - General Education and Natural Resources received \$4.7 million and \$4.2 million respectively in supplemental appropriations for increased expenditures.
- The remaining functional areas received a combined increase of \$4.8 million except general government which realized a reduction of \$2.1 million. This reduction in general government general fund expense was the result of the implementation of the Department of Buildings and General Services direct billing of facilities operations expense (rent) to departments and the fact that funding sources other than general fund could be used by departments to pay this rent; and the implementation of the new Financial and HR fund as an internal service fund which was previously budgeted in the general fund.

As budgetary revenue estimates were less than actual budgetary revenue amounts received, a portion of these supplemental appropriations were funded by this additional revenue as well as from available fund balances. During the year, actual budgetary-based revenues received exceeded the original and final budgetary estimates by approximately \$13.5 million and \$10.6 million respectively with tax revenue received exceeding the final budgeted revenue estimate by \$15 million.

Actual expenditures as calculated on a budgetary basis ended up being \$17.6 million more than the original budget but \$22.9 million less than the final appropriated amounts.

## **PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2003, the State's primary government reported a combined capital asset figure for its governmental and business-type activities of \$1.875 billion which included a "construction in progress" amount of \$364 million. Accumulated depreciation totaled \$786.4 million, which left a net book value of \$1.1 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Total additions to the State's primary government's investment in capital assets for fiscal year 2003 were \$153.0, with \$123.1 million being in construction in progress. Much of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$61.8 million. Additional information on the State's capital assets can be found in Note 4 of the notes to the financial statements of this report.

### **Debt Administration**

The State has no constitutional or other limit on its power to issue obligations or to incur debt besides borrowing only for public purposes. In 1990 the General Assembly created the Capital Debt Affordability Advisory Committee and made it responsible for overseeing the long-term capital planning for the State. The authorization and issuance of State debt including all the terms and other related terms are statutory. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, in the months of May and June preceding such fiscal year, or in subsequent fiscal years. Bonds are backed by the full faith and credit of the State, including the State's power to levy additional taxes to ensure repayment of the debt.

The State of Vermont's outstanding bond debt decreased by a net \$12.7 million during fiscal year 2003. This decrease can be accounted for by the issuance of \$67.4 million worth of general obligation bonds and accretion of \$3.3 million in principal on the State's capital appreciation bonds offset by the redemption of \$51.4 million and the defeasance of \$32 million in outstanding debt. Additional information on the State's long-term indebtedness is contained in Note 8 of the notes to the financial statements. The State's bond ratings as of October 2003 are as follows: Moody's – Aa1; S&P – AA+; and Fitch – AA+.

## **ECONOMIC CONDITIONS**

According to the economic forecast and opinions put forth by Economic and Policy Resources, Inc of Williston, Vermont, which utilizes the underlying forecast contained in "The Economic.com National Forecast Assumptions" provided by Economy.com of West Chester, Pa. and which was completed in conjunction with the New England Economic Project (NEEP), the U.S economic recovery appears to be showing real signs of a rebound beginning with the second half of calendar year 2003. Most recovery indicators seem to be up with one exception; recovery in the U.S. labor market conditions. The off-shoring of American jobs as well as meager wage growth along with strong productivity gains and increasing demand has resulted in increased corporate profits. This increased profitability has resulted in increased levels of business investment and renewed hiring in calendar 2004. However, even with the above, there are strong indicators that the pace of this economic recovery will be more subdued and uneven than past ones.

Vermont's labor markets continue to make progress, but the recovery remains uneven. Progress has been affected by several major job reductions at IBM's Essex Junction, Vermont plant. As of March 2004, announced job reductions at the IBM facility now total 1700 jobs over the last two and one-half years. These reductions have acted to restrain the pace of job recovery across that period, but even so,

Vermont's pace of job recovery remains somewhat better than the national average. It ranks 21st among the 50 states for year over year private sector payroll job changes (and 20<sup>th</sup> for total payroll jobs) for the year ended March 2004.

It should be noted that Vermont's total economic picture including the economic facts and forecasts presented above are considered by legislative leaders and management in preparing the State's budget for both current and future years.

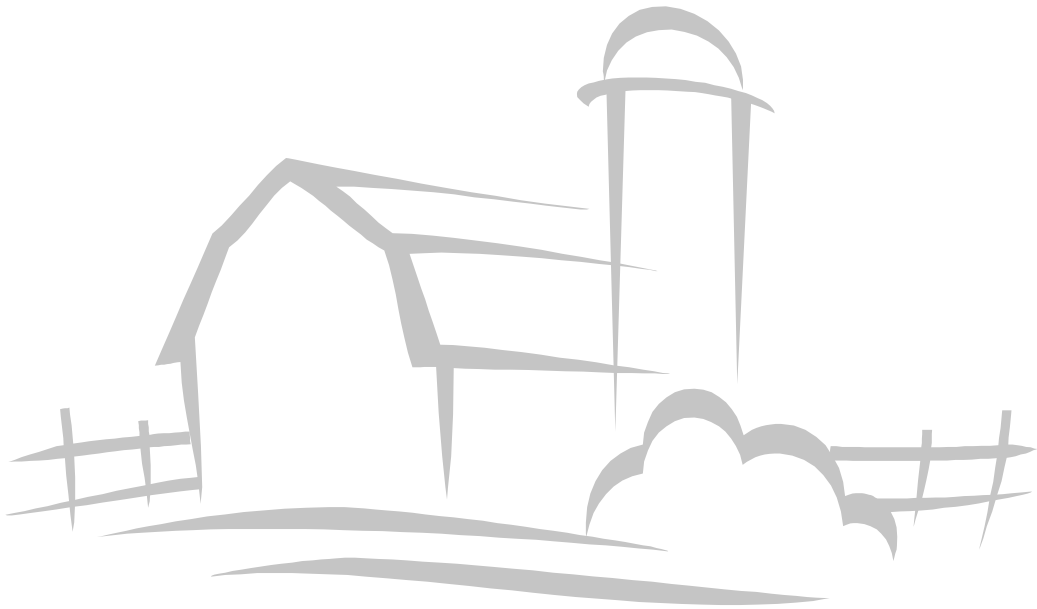
## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the State of Vermont's finances for all of Vermont's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

State of Vermont  
Department of Finance and Management  
109 State Street  
Pavilion Building  
Montpelier, Vermont 05609-0401

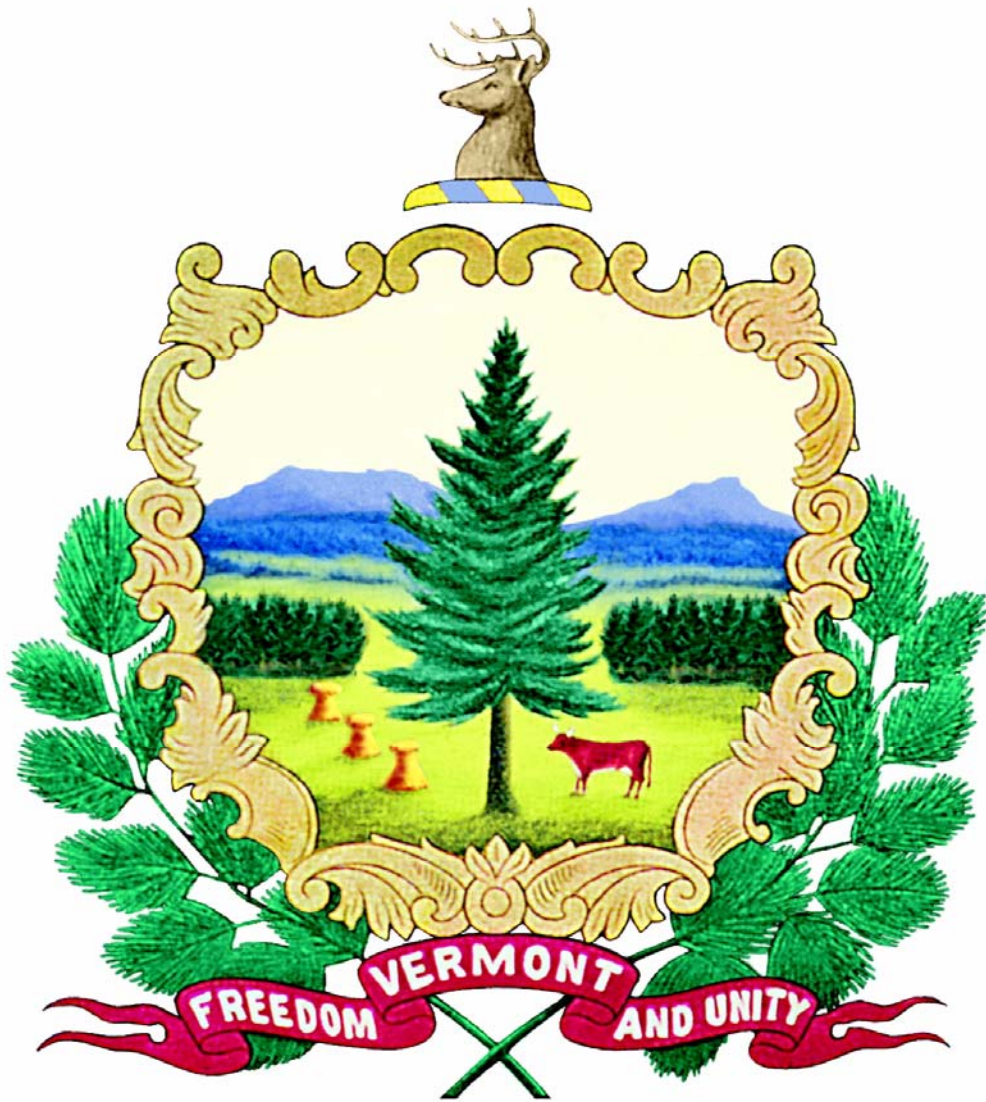
The State's component units issue their own separately issued financial statements. Their statements may be obtained by directly contacting them at the addresses found in Note 1 to the state's financial statements.

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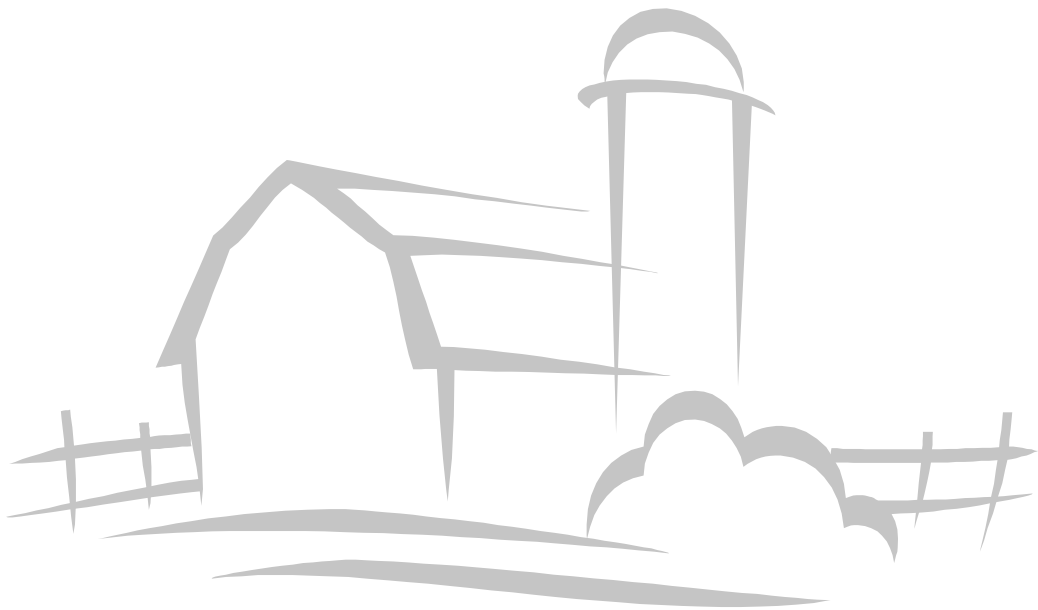
*Vermont*



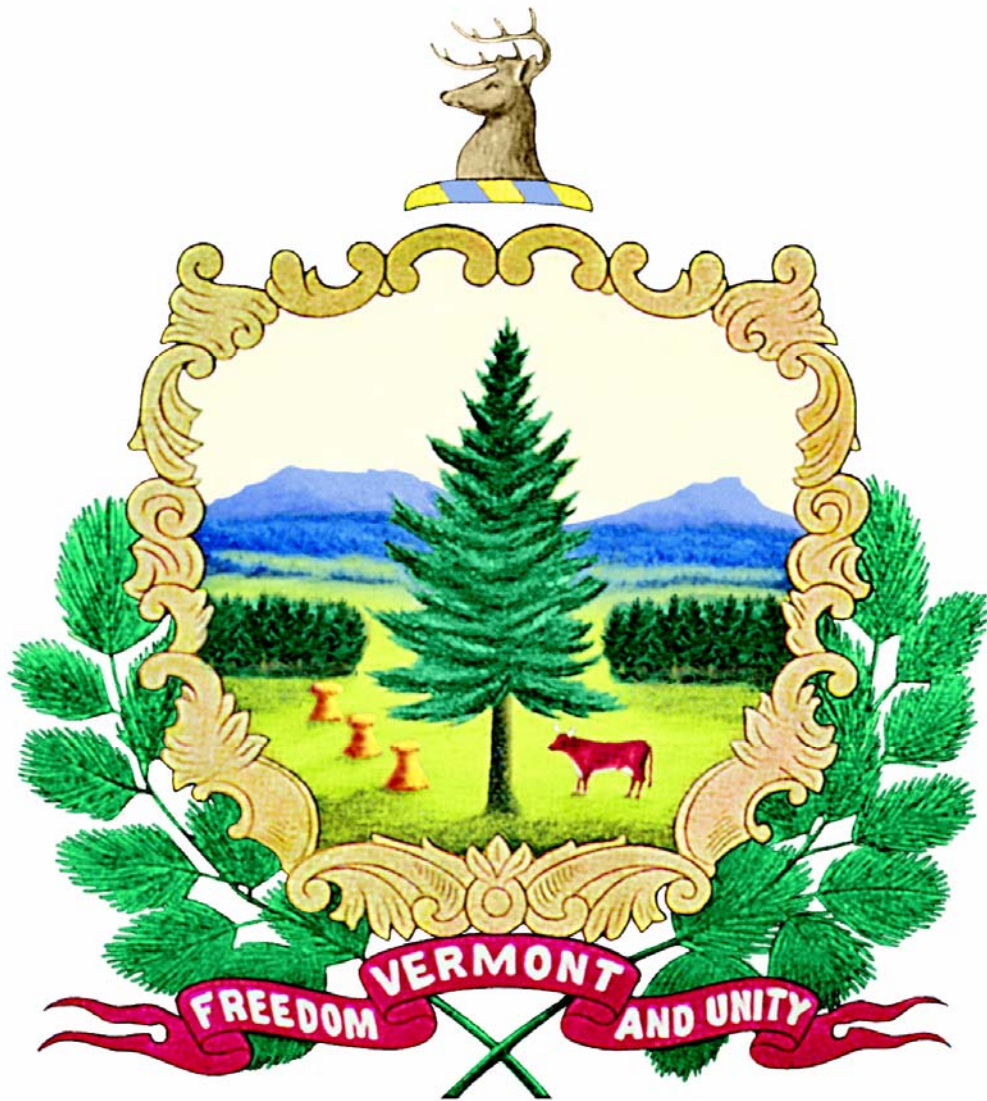


## ***BASIC FINANCIAL STATEMENTS***

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**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

**STATE OF VERMONT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2003**

|  | Primary Government         |                             |                      | Discretely<br>Presented<br>Component<br>Units |
|--|----------------------------|-----------------------------|----------------------|---|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                |   |
| <b>ASSETS</b>                                  |                            |                             |                      |   |
| Current assets:                                |                            |                             |                      |   |
| Cash and cash equivalents.....                 | \$ 205,149,737             | \$ 263,106,310              | \$ 468,256,047       | \$ 321,790,694                                |
| Taxes receivable.....                          | 111,042,033                | 8,333,809                   | 119,375,842          | -   |
| Loans and notes receivable-current.....        | 5,078,998                  | 1,676,022                   | 6,755,020            | 141,132,397                                   |
| Federal grants receivable.....                 | 136,264,828                | 718,345                     | 136,983,173          | 15,103,246                                    |
| Other receivables.....                         | 37,695,386                 | 1,062,358                   | 38,757,744           | 67,915,378                                    |
| Investments.....                               | 8,755,297                  | 4,371,623                   | 13,126,920           | 124,139,261                                   |
| Inventories.....                               | 3,003,115                  | 4,778,500                   | 7,781,615            | 2,163,409                                     |
| Internal balances.....                         | 1,442,718                  | (1,442,718)                 | -                    | -   |
| Receivable from primary government.....        | -                          | -                           | -                    | 41,655  |
| Receivable from component units.....           | 10,153,406                 | -                           | 10,153,406           | -   |
| Other current assets.....                      | 921,489                    | 123,455                     | 1,044,944            | 9,656,141                                     |
| Total current assets.....                      | <u>519,507,007</u>         | <u>282,727,704</u>          | <u>802,234,711</u>   | <u>681,942,181</u>                            |
| Noncurrent assets:                             |                            |                             |                      |   |
| Cash and cash equivalents.....                 | -                          | 675,459                     | 675,459              | 8,980,577                                     |
| Taxes receivable.....                          | 26,995,145                 | -                           | 26,995,145           | -   |
| Other receivables.....                         | 16,328,331                 | 60,734                      | 16,389,065           | -   |
| Notes and loans receivable.....                | 131,159,077                | 801,121                     | 131,960,198          | 1,521,132,307                                 |
| Investments.....                               | 27,629,649                 | -                           | 27,629,649           | 365,108,684                                   |
| Other noncurrent assets.....                   | 1,365,113                  | -                           | 1,365,113            | 27,123,524                                    |
| Capital assets:                                |                            |                             |                      |   |
| Land.....                                      | 66,560,594                 | -                           | 66,560,594           | 17,810,928                                    |
| Construction in progress.....                  | 364,000,075                | -                           | 364,000,075          | 652,886                                       |
| Works of art.....                              | 111,521                    | -                           | 111,521              | -   |
| Capital assets being depreciated:              |                            |                             |                      |   |
| Infrastructure.....                            | 1,080,423,167              | -                           | 1,080,423,167        | 16,213,062                                    |
| Property, plant and equipment.....             | 363,080,731                | 1,184,229                   | 364,264,960          | 502,198,519                                   |
| Less accumulated depreciation.....             | (785,773,282)              | (650,459)                   | (786,423,741)        | (260,727,276)                                 |
| Total capital assets, net of depreciation..... | <u>1,088,402,806</u>       | <u>533,770</u>              | <u>1,088,936,576</u> | <u>276,148,119</u>                            |
| Total noncurrent assets.....                   | <u>1,291,880,121</u>       | <u>2,071,084</u>            | <u>1,293,951,205</u> | <u>2,198,493,211</u>                          |
| Total assets.....                              | <u>1,811,387,128</u>       | <u>284,798,788</u>          | <u>2,096,185,916</u> | <u>2,880,435,392</u>                          |

|  | Primary Government         |                             |                         | Discretely<br>Presented<br>Component<br>Units |
|--|----------------------------|-----------------------------|-------------------------|---|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                   |   |
| <b>LIABILITIES</b>                                   |                            |                             |                         |   |
| Current liabilities:                                 |                            |                             |                         |   |
| Accounts payable and other current liabilities.....  | 180,384,667                | 9,849,534                   | 190,234,201             | 50,428,355                                    |
| Income tax refunds payable.....                      | 51,240,775                 | -                           | 51,240,775              | -   |
| Payable to primary government.....                   | -                          | -                           | -                       | 10,153,406                                    |
| Payable to component units.....                      | 41,655                     | -                           | 41,655                  | -   |
| Accrued interest payable.....                        | 9,367,868                  | -                           | 9,367,868               | 3,217,851                                     |
| Bonds, notes and leases payable.....                 | 50,495,000                 | -                           | 50,495,000              | 132,183,687                                   |
| Compensated absences.....                            | 16,970,133                 | 183,530                     | 17,153,663              | -   |
| Claims and judgments.....                            | 11,205,846                 | 3,256,533                   | 14,462,379              | -   |
| Current portion of other long-term liabilities.....  | -                          | -                           | -                       | 1,514,889                                     |
| Deferred revenue.....                                | 46,276,727                 | 1,886,584                   | 48,163,311              | 32,229,989                                    |
| Total current liabilities                            | <u>365,982,671</u>         | <u>15,176,181</u>           | <u>381,158,852</u>      | <u>229,728,177</u>                            |
| Long-term liabilities:                               |                            |                             |                         |   |
| Lottery prize awards payable.....                    | -                          | 879,715                     | 879,715                 | -   |
| Bonds, notes and leases payable.....                 | 423,290,874                | -                           | 423,290,874             | 1,875,845,033                                 |
| Compensated absences.....                            | 8,461,837                  | 97,669                      | 8,559,506               | -   |
| Claims and judgments.....                            | 22,198,569                 | -                           | 22,198,569              | -   |
| Other long-term liabilities                          | 142,635,885                | -                           | 142,635,885             | 34,507,149                                    |
| Total long-term liabilities.....                     | <u>596,587,165</u>         | <u>977,384</u>              | <u>597,564,549</u>      | <u>1,910,352,182</u>                          |
| Total liabilities.....                               | <u>962,569,836</u>         | <u>16,153,565</u>           | <u>978,723,401</u>      | <u>2,140,080,359</u>                          |
| <b>NET ASSETS</b>                                    |                            |                             |                         |   |
| Invested in capital assets, net of related debt..... | 928,020,928                | 533,770                     | 928,554,698             | 154,068,373                                   |
| Restricted for:                                      |                            |                             |                         |   |
| Unemployment compensation.....                       | -                          | 264,989,370                 | 264,989,370             | -   |
| Component unit net assets.....                       | -                          | -                           | -                       | 404,226,821                                   |
| Funds held in permanent investments:                 |                            |                             |                         |   |
| Expendable.....                                      | 1,705,584                  | -                           | 1,705,584               | -   |
| Nonexpendable.....                                   | 7,416,453                  | -                           | 7,416,453               | -   |
| Budget stabilization.....                            | 43,796,371                 | -                           | 43,796,371              | -   |
| Capital projects.....                                | 37,299,263                 | -                           | 37,299,263              | -   |
| Unrestricted.....                                    | (169,421,307)              | 3,122,083                   | (166,299,224)           | 182,059,839                                   |
| Total net assets.....                                | <u>\$ 848,817,292</u>      | <u>\$ 268,645,223</u>       | <u>\$ 1,117,462,515</u> | <u>\$ 740,355,033</u>                         |

The accompanying notes are an integral part of the financial statements.

**STATE OF VERMONT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003**

| <u>Functions/Programs</u>                   | <u>Program Revenues</u> |                                 |   |   |
|---|-------------------------|---------------------------------|---|---|
|   | <u>Expenses</u>         | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |
| <b>Primary Government:</b>                  |                         |                                 |   |   |
| Governmental activities:                    |                         |                                 |   |   |
| General government.....                     | \$ 51,573,621           | \$ 11,603,365                   | \$ 2,682,062                                      | \$ -  |
| Protection to persons & property.....       | 186,817,842             | 79,397,311                      | 39,089,341  | -   |
| Human services.....                         | 1,185,924,153           | 30,390,548                      | 724,465,478                                       | -   |
| Employment & training.....                  | 27,906,916              | 2,881,059                       | 24,252,257  | -   |
| General education.....                      | 1,096,988,222           | 1,874,304                       | 85,323,777  | -   |
| Natural resources.....                      | 69,459,648              | 18,962,892                      | 19,746,667  | 14,329,014                                      |
| Commerce & community development.....       | 33,849,108              | 1,088,366                       | 14,657,190  | -   |
| Transportation.....                         | 236,214,373             | 63,778,498                      | 24,966,936  | 101,693,631                                     |
| Public service enterprises.....             | 1,897,774               | 1,674,427                       | -   | -   |
| Interest on long-term debt.....             | 26,358,563              | -                               | -   | -   |
| Total governmental activities.....          | <u>2,916,990,220</u>    | <u>211,650,770</u>              | <u>935,183,708</u>                                | <u>116,022,645</u>                              |
| Business-type activities:                   |                         |                                 |   |   |
| Vermont Lottery Commission.....             | 63,650,809              | 79,412,447                      | -   | -   |
| Liquor Control.....                         | 34,357,279              | 34,254,147                      | -   | -   |
| Unemployment Compensation.....              | 130,315,726             | 63,633,038                      | -   | -   |
| Other.....                                  | 3,026,310               | 2,920,076                       | -   | -   |
| Total business-type activities.....         | <u>231,350,124</u>      | <u>180,219,708</u>              | <u>0</u>  | <u>0</u>  |
| Total primary government.....               | <u>\$ 3,148,340,344</u> | <u>\$ 391,870,478</u>           | <u>\$ 935,183,708</u>                             | <u>\$ 116,022,645</u>                           |
| <b>Component Units:</b>                     |                         |                                 |   |   |
| University of Vermont.....                  | \$ 379,503,000          | \$ 182,705,000                  | \$ 182,640,000                                    | \$ 11,475,000                                   |
| Vermont State Colleges.....                 | 106,498,224             | 58,679,187                      | 45,488,379  | 874,755   |
| Vermont Student Assistance Corporation..... | 93,829,000              | 57,775,000                      | 41,700,000  | -   |
| Other.....                                  | 61,389,984              | 37,123,566                      | 16,069,747  | -   |
| Total component units.....                  | <u>\$ 641,220,208</u>   | <u>\$ 336,282,753</u>           | <u>\$ 285,898,126</u>                             | <u>\$ 12,349,755</u>                            |

General Revenues:

Taxes:

|   |  |
|---|--|
| Personal and corporate income.....        |  |
| Sales and use.....                        |  |
| Meals and rooms.....                      |  |
| Purchase and use.....                     |  |
| Motor fuel.....                           |  |
| Statewide property.....                   |  |
| Other taxes.....                          |  |
| Total taxes.....                          |  |
| Unrestricted investment earnings.....     |  |
| Tobacco litigation settlement.....        |  |
| Miscellaneous.....                        |  |
| Transfers.....                            |  |
| Total general revenues and transfers..... |  |

Extraordinary items:

|   |  |
|---|--|
| Gain (loss) on forgiveness of debt..... |  |
| Loss on extinguishment of debt.....     |  |
| Changes in net assets.....              |  |

Net Assets - Beginning, restated (see Note 10)....

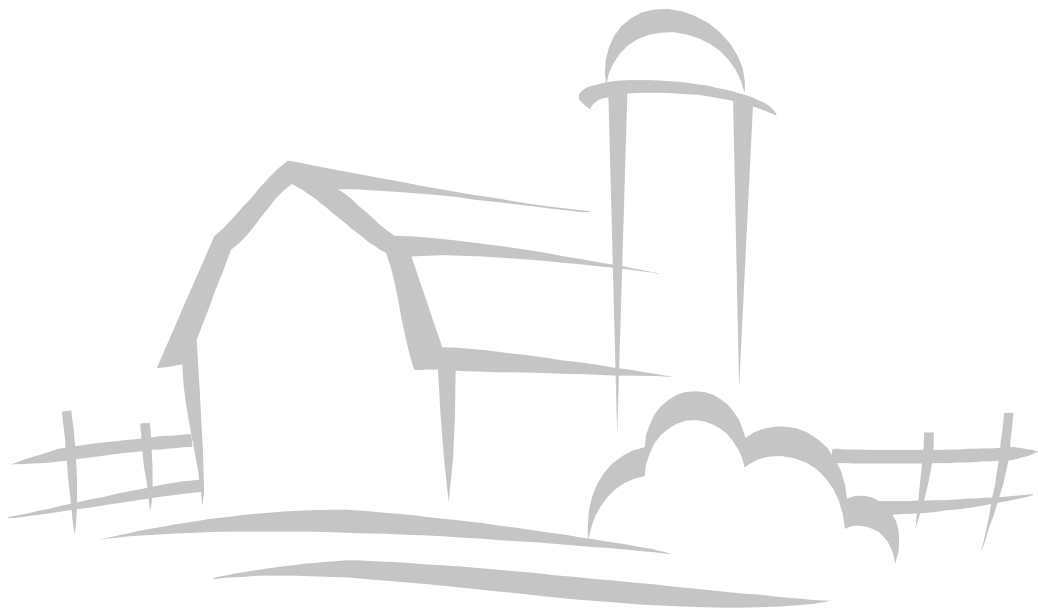
Net Assets - Ending.....

The accompanying notes are an integral part of these financial statements.

**Net (Expense) Revenue and  
Changes in Net Assets**

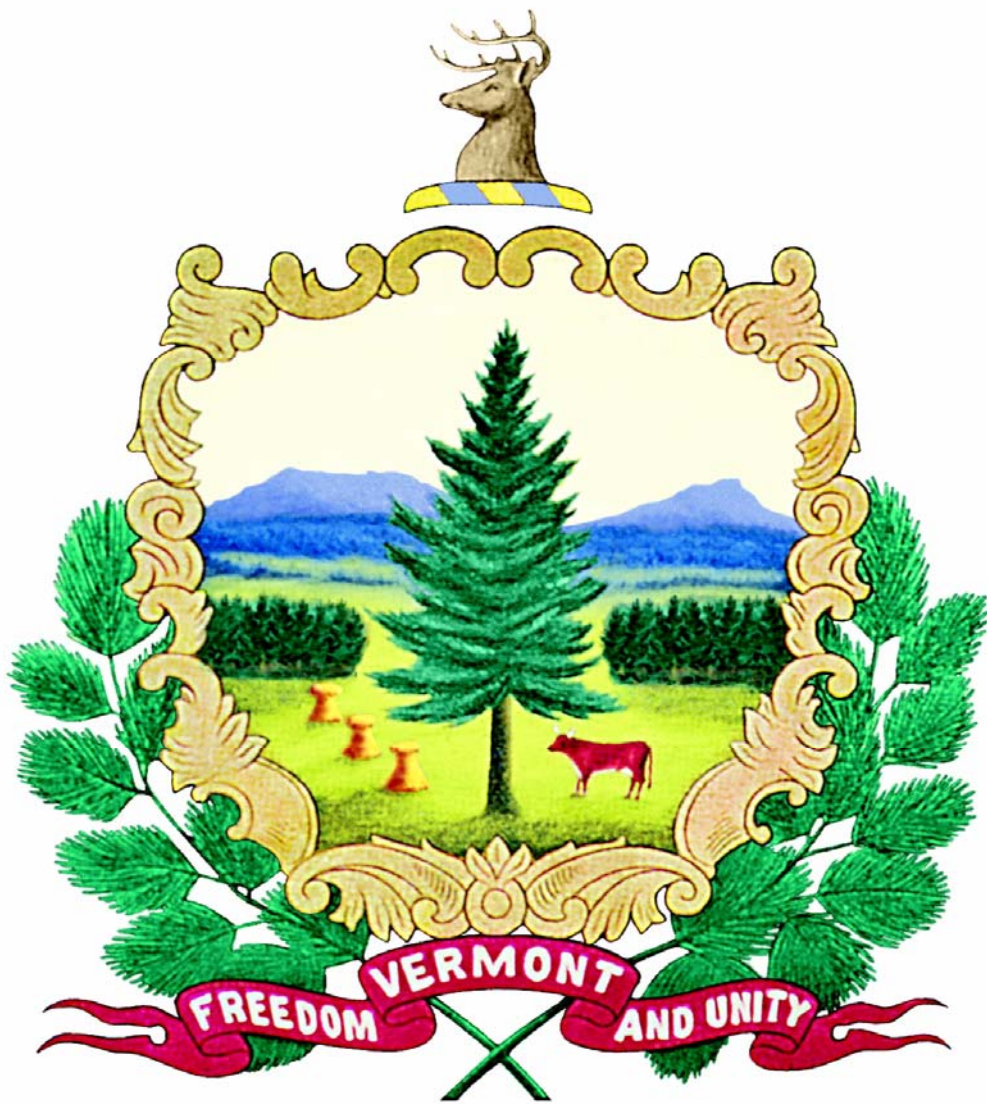
| <b>Primary Government</b>          |                                    |                         | <b>Discretely<br/>Presented<br/>Component<br/>Units</b> |
|------------------------------------|------------------------------------|-------------------------|---|
| <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activites</b> | <b>Total</b>            |   |
| \$ (37,288,194)                    | \$ -                               | \$ (37,288,194)         | \$ -  |
| (68,331,190)                       | -                                  | (68,331,190)            | -   |
| (431,068,127)                      | -                                  | (431,068,127)           | -   |
| (773,600)                          | -                                  | (773,600)               | -   |
| (1,009,790,141)                    | -                                  | (1,009,790,141)         | -   |
| (16,421,075)                       | -                                  | (16,421,075)            | -   |
| (18,103,552)                       | -                                  | (18,103,552)            | -   |
| (45,775,308)                       | -                                  | (45,775,308)            | -   |
| (223,347)                          | -                                  | (223,347)               | -   |
| (26,358,563)                       | -                                  | (26,358,563)            | -   |
| <u>(1,654,133,097)</u>             | <u>0</u>                           | <u>(1,654,133,097)</u>  | <u>0</u>  |
| -                                  | 15,761,638                         | 15,761,638              | -   |
| -                                  | (103,132)                          | (103,132)               | -   |
| -                                  | (66,682,688)                       | (66,682,688)            | -   |
| -                                  | (106,234)                          | (106,234)               | -   |
| <u>0</u>                           | <u>(51,130,416)</u>                | <u>(51,130,416)</u>     | <u>0</u>  |
| <u>(1,654,133,097)</u>             | <u>(51,130,416)</u>                | <u>(1,705,263,513)</u>  | <u>0</u>  |
| -                                  | -                                  | -                       | (2,683,000)   |
| -                                  | -                                  | -                       | (1,455,903)   |
| -                                  | -                                  | -                       | 5,646,000   |
| -                                  | -                                  | -                       | (8,196,671)   |
| <u>0</u>                           | <u>0</u>                           | <u>0</u>                | <u>(6,689,574)</u>                                      |
| 404,947,697                        | -                                  | 404,947,697             | -   |
| 205,205,492                        | -                                  | 205,205,492             | -   |
| 95,354,842                         | -                                  | 95,354,842              | -   |
| 82,089,177                         | -                                  | 82,089,177              | -   |
| 71,257,920                         | -                                  | 71,257,920              | -   |
| 453,868,075                        | -                                  | 453,868,075             | -   |
| 284,253,279                        | -                                  | 284,253,279             | 11,088,000  |
| <u>1,596,976,482</u>               | <u>0</u>                           | <u>1,596,976,482</u>    | <u>11,088,000</u>                                       |
| 4,602,180                          | 18,011,637                         | 22,613,817              | 27,195,488  |
| 30,545,249                         | -                                  | 30,545,249              | -   |
| 2,446,521                          | 2,646                              | 2,449,167               | 62,323  |
| 16,582,383                         | (16,582,383)                       | -                       | -   |
| <u>1,651,152,815</u>               | <u>1,431,900</u>                   | <u>1,652,584,715</u>    | <u>38,345,811</u>                                       |
| (7,500,000)                        | -                                  | (7,500,000)             | 7,500,000   |
| -                                  | -                                  | -                       | (755,815)   |
| (10,480,282)                       | (49,698,516)                       | (60,178,798)            | 38,400,422  |
| <u>859,297,574</u>                 | <u>318,343,739</u>                 | <u>1,177,641,313</u>    | <u>701,954,611</u>                                      |
| <u>\$ 848,817,292</u>              | <u>\$ 268,645,223</u>              | <u>\$ 1,117,462,515</u> | <u>\$ 740,355,033</u>                                   |

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**GOVERNMENTAL FUNDS  
FINANCIAL STATEMENTS**

**STATE OF VERMONT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003**

|   | <b>General Fund</b>   | <b>Transportation<br/>Fund</b> | <b>Education Fund</b> |
|---|-----------------------|--------------------------------|-----------------------|
| <b>ASSETS:</b>  |                       |                                |                       |
| Cash and cash equivalents.....                            | \$ 22,805,481         | \$ 1,806,060                   | \$ 11,314,848         |
| Investments.....  | -                     | -                              | -                     |
| Receivables:  |                       |                                |                       |
| Taxes receivable (net).....                               | 121,537,086           | 6,900,181                      | 6,466,646             |
| Accrued interest receivable.....                          | -                     | -                              | -                     |
| Notes and loans receivable.....                           | 8,609,999             | 868,666                        | -                     |
| Other receivables (net).....                              | 2,025,242             | 10,093,768                     | -                     |
| Intergovernmental receivable - federal<br>government..... | -                     | 22,908,370                     | -                     |
| Due from other funds.....                                 | 523,742               | 214,789                        | 730,713               |
| Due from component units.....                             | 2,806,037             | 1,599,285                      | -                     |
| Interfund receivable.....                                 | 25,148,970            | -                              | -                     |
| Advances to other funds.....                              | 323,700               | -                              | -                     |
| Advances to component units.....                          | 1,921,695             | -                              | -                     |
| Restricted cash.....                                      | -                     | 1,675,523                      | -                     |
|   | <b>\$ 185,701,952</b> | <b>\$ 46,066,642</b>           | <b>\$ 18,512,207</b>  |
| <b>LIABILITIES AND FUND BALANCE</b>                       |                       |                                |                       |
| <b>LIABILITIES:</b>                                       |                       |                                |                       |
| Accounts payable.....                                     | \$ 10,193,179         | \$ 10,995,921                  | \$ 9,911,352          |
| Accrued liabilities.....                                  | 7,847,668             | 4,481,903                      | -                     |
| Retainage payable.....                                    | 243,184               | 2,717,193                      | -                     |
| Accrued interest payable.....                             | 60,718                | 3,112                          | -                     |
| Due to other funds.....                                   | 905,830               | 675,614                        | 214,660               |
| Due to component units.....                               | -                     | 41,655                         | -                     |
| Tax refunds payable.....                                  | 538,060               | -                              | -                     |
| Deferred revenue.....                                     | 66,160,638            | 22,693,141                     | 1,343,977             |
|   | <b>85,949,277</b>     | <b>41,608,539</b>              | <b>11,469,989</b>     |
| <b>FUND BALANCE:</b>                                      |                       |                                |                       |
| Reserved for:   |                       |                                |                       |
| Encumbrances.....   | 977,136               | 58,618                         | 34,127                |
| Budget stabilization.....                                 | 23,564,564            | 9,156,195                      | 11,075,612            |
| Debt service.....   | 50,197                | -                              | -                     |
| Advances and notes receivable.....                        | 10,855,394            | -                              | -                     |
| Human caseload management.....                            | 17,243,422            | -                              | -                     |
| Endowments.....   | -                     | -                              | -                     |
| Unreserved:   |                       |                                |                       |
| Designated for specific purposes.....                     | -                     | -                              | -                     |
| Undesignated.....   | 47,061,962            | (4,756,710)                    | (4,067,521)           |
|   | <b>99,752,675</b>     | <b>4,458,103</b>               | <b>7,042,218</b>      |
|   | <b>\$ 185,701,952</b> | <b>\$ 46,066,642</b>           | <b>\$ 18,512,207</b>  |

The accompanying notes are an integral part of the financial statements.

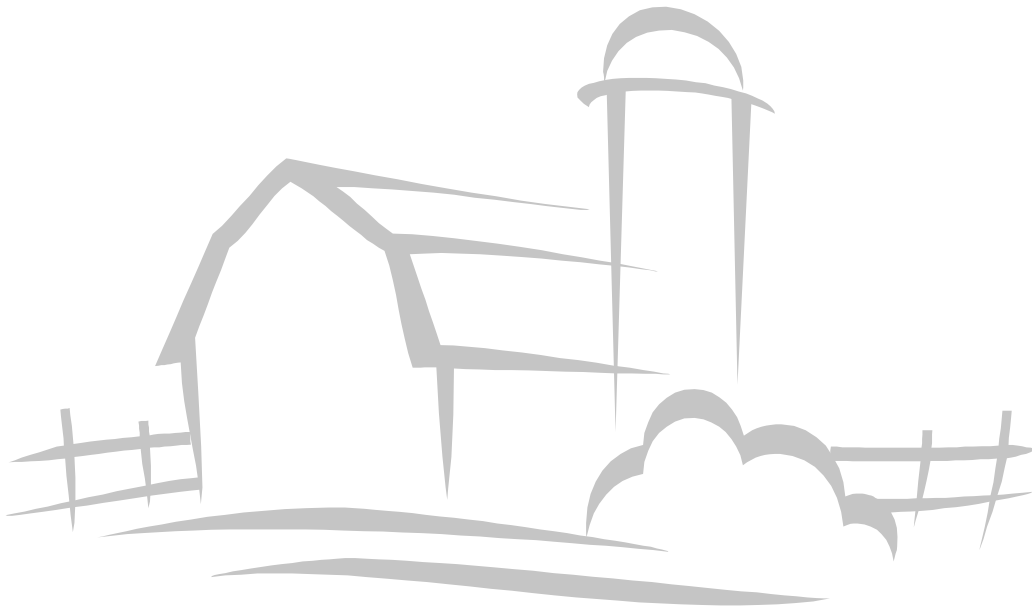
| <u>Special Fund</u>  | <u>Federal Revenue Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|----------------------|-----------------------------|------------------------------------|---------------------------------|
| \$ 37,483,182        | \$ 37,449,771               | \$ 48,859,982                      | \$ 159,719,324                  |
| 27,337,380           | -                           | 9,047,566                          | 36,384,946                      |
| 3,048,453            | -                           | 84,812                             | 138,037,178                     |
| 1,000                | -                           | -                                  | 1,000                           |
| 190,000              | 126,569,410                 | -                                  | 136,238,075                     |
| 17,350,281           | 11,344,397                  | 456,348                            | 41,270,036                      |
| -                    | 112,866,821                 | 489,637                            | 136,264,828                     |
| 6,759,770            | 1,583,899                   | 4,596                              | 9,817,509                       |
| -                    | 3,826,389                   | -                                  | 8,231,711                       |
| -                    | -                           | -                                  | 25,148,970                      |
| -                    | -                           | -                                  | 323,700                         |
| -                    | -                           | -                                  | 1,921,695                       |
| 3,430,000            | -                           | -                                  | 5,105,523                       |
| <b>\$ 95,600,066</b> | <b>\$ 293,640,687</b>       | <b>\$ 58,942,941</b>               | <b>\$ 698,464,495</b>           |
| <br>                 |                             |                                    |                                 |
| \$ 37,830,513        | \$ 82,549,323               | \$ 2,347,537                       | \$ 153,827,825                  |
| 2,299,499            | 5,196,010                   | 401,432                            | 20,226,512                      |
| 1,494,583            | 92,850                      | 115,127                            | 4,662,937                       |
| 33,906               | -                           | -                                  | 97,736                          |
| 850,470              | 1,585,405                   | 251,557                            | 4,483,536                       |
| -                    | -                           | -                                  | 41,655                          |
| -                    | -                           | -                                  | 538,060                         |
| 10,414,817           | 162,621,751                 | -                                  | 263,234,324                     |
| <b>52,923,788</b>    | <b>252,045,339</b>          | <b>3,115,653</b>                   | <b>447,112,585</b>              |
| <br>                 |                             |                                    |                                 |
| 1,840,921            | 11,201,089                  | 5,750,211                          | 19,862,102                      |
| -                    | -                           | -                                  | 43,796,371                      |
| -                    | -                           | -                                  | 50,197                          |
| -                    | -                           | -                                  | 10,855,394                      |
| -                    | -                           | -                                  | 17,243,422                      |
| -                    | -                           | 7,416,453                          | 7,416,453                       |
| -                    | -                           | 37,299,263                         | 37,299,263                      |
| 40,835,357           | 30,394,259                  | 5,361,361                          | 114,828,708                     |
| <b>42,676,278</b>    | <b>41,595,348</b>           | <b>55,827,288</b>                  | <b>251,351,910</b>              |
| <b>\$ 95,600,066</b> | <b>\$ 293,640,687</b>       | <b>\$ 58,942,941</b>               | <b>\$ 698,464,495</b>           |

**State of Vermont**  
**Reconciliation of Governmental Fund Balances**  
**to the Statement of Net Assets - Governmental Activities**  
**June 30, 2003**

|  |               |                              |
|--|---------------|------------------------------|
| <b>Total fund balances from previous page</b> .....  |               | <b>\$ 251,351,910</b>        |
| <p>Capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds. Those assets consist of:</p>  |               |                              |
| Land.....  | 66,534,438    |                              |
| Construction in progress.....  | 363,587,536   |                              |
| Depreciable capital assets and infrastructure,<br>net of \$761,228,786 of accumulated depreciation.....  | 633,162,058   |                              |
| Capital assets, net of accumulated depreciation.....   |               | 1,063,284,032                |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....</p> |               |                              |
|  |               | 15,168,346                   |
| <p>Amount presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting include:</p>   |               |                              |
| Long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred revenues in the governmental funds.....   |               | 218,271,332                  |
| Deferred charge for unamortized bond issuance costs.....   |               | 475,900                      |
| Deferred for unamortized gain on sale of refunding bonds.....  |               | 889,213                      |
| <p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds. These liabilities include:</p>                                 |               |                              |
| Bonded debt.....   | (473,785,874) |                              |
| Accrued interest payable on bonds.....   | (9,270,132)   |                              |
| Compensated absences (net of internal service funds' liability).....   | (24,228,835)  |                              |
| Tax refunds payable.....   | (50,702,715)  |                              |
| Other long-term liabilities.....   | (142,635,885) |                              |
| Long-term liabilities.....   |               | (700,623,441)                |
| <b>Net assets of governmental activities</b> .....   |               | <b>\$ <u>848,817,292</u></b> |

The accompanying notes are an integral part of the financial statements.

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*Vermont*

**STATE OF VERMONT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | <u>General Fund</u>  | <u>Transportation Fund</u> | <u>Education Fund</u> |
|--|----------------------|----------------------------|-----------------------|
| <b>REVENUES:</b>   |                      |                            |                       |
| Taxes:   |                      |                            |                       |
| Personal income tax.....                                 | \$ 369,498,175       | \$ -                       | \$ -                  |
| Corporate income tax.....                                | 26,731,020           | -                          | 6,269,864             |
| Sales and use tax.....                                   | 217,983,997          | -                          | -                     |
| Meals and rooms.....                                     | 83,065,137           | -                          | 18,810,967            |
| Motor fuel tax.....                                      | -                    | 54,183,114                 | 10,833,015            |
| Purchase and use tax.....                                | -                    | 68,619,196                 | 13,469,981            |
| Statewide property tax.....                              | -                    | -                          | 453,913,699           |
| Other taxes.....   | 105,269,018          | 16,667,627                 | 53,114,886            |
| Earnings of departments:                                 |                      |                            |                       |
| Fees.....  | 8,168,611            | 3,314,869                  | 2,532,729             |
| Rents and leases.....                                    | -                    | 619,034                    | -                     |
| Sales of service.....                                    | 1,645,369            | 65,065                     | -                     |
| Federal grants.....                                      | -                    | 122,152,213                | -                     |
| Fines, forfeits and penalties.....                       | 3,346,942            | 8,570,496                  | -                     |
| Investment income.....                                   | 1,408,677            | 73,390                     | 14,672                |
| Licenses:  |                      |                            |                       |
| Business.....  | 2,709,071            | 695,972                    | -                     |
| Non-business.....  | 98,883               | 54,513,141                 | -                     |
| Special assessments.....                                 | 148,393              | -                          | -                     |
| Other revenues.....                                      | 1,436,911            | 2,308,644                  | -                     |
| <b>Total revenues.....</b>                               | <b>821,510,204</b>   | <b>331,782,761</b>         | <b>558,959,813</b>    |
| <b>EXPENDITURES:</b>                                     |                      |                            |                       |
| General government.....                                  | 35,258,263           | 10,072,835                 | -                     |
| Protection to persons and property.....                  | 64,382,741           | 28,320,277                 | -                     |
| Human services.....                                      | 270,663,749          | 2,011,331                  | -                     |
| Employment & training.....                               | 1,329,245            | -                          | -                     |
| General education.....                                   | 118,055,931          | 5,413,925                  | 838,313,081           |
| Natural resources.....                                   | 17,280,505           | 1,085,676                  | -                     |
| Commerce and community development.....                  | 13,332,319           | -                          | -                     |
| Transportation.....                                      | -                    | 284,553,067                | -                     |
| Public service enterprises.....                          | -                    | -                          | -                     |
| Debt service.....  | 67,902,550           | 2,820,399                  | -                     |
| <b>Total expenditures.....</b>                           | <b>588,205,303</b>   | <b>334,277,510</b>         | <b>838,313,081</b>    |
| <b>Excess of revenues over (under) expenditures.....</b> | <b>233,304,901</b>   | <b>(2,494,749)</b>         | <b>(279,353,268)</b>  |
| <b>Other Financing Sources (Uses):</b>                   |                      |                            |                       |
| Proceeds from the sale of bonds.....                     | -                    | -                          | -                     |
| Proceeds from the sale of refunding bonds.....           | 30,016,694           | 1,538,306                  | -                     |
| Premium on sale of bonds.....                            | 2,115,034            | 108,392                    | -                     |
| Payment to bond escrow agent.....                        | (32,131,728)         | (1,646,698)                | -                     |
| Premium on sale of short-term notes.....                 | 678,750              | -                          | -                     |
| Transfers in.....  | 33,335,916           | 1,674,543                  | 270,210,675           |
| Transfers (out).....                                     | (314,955,861)        | (11,086,148)               | (1,071,234)           |
| <b>Total other financing sources (uses).....</b>         | <b>(280,941,195)</b> | <b>(9,411,605)</b>         | <b>269,139,441</b>    |
| <b>Extraordinary item</b>                                |                      |                            |                       |
| Loss on forgiveness of notes receivable.....             | (2,204,948)          | -                          | -                     |
| <b>Net change in fund balances.....</b>                  | <b>(49,841,242)</b>  | <b>(11,906,354)</b>        | <b>(10,213,827)</b>   |
| <b>Fund balance, July 1, restated (see Note 10).....</b> | <b>149,593,917</b>   | <b>16,364,457</b>          | <b>17,256,045</b>     |
| <b>Fund balance, June 30.....</b>                        | <b>\$ 99,752,675</b> | <b>\$ 4,458,103</b>        | <b>\$ 7,042,218</b>   |

The accompanying notes are an integral part of the financial statements.

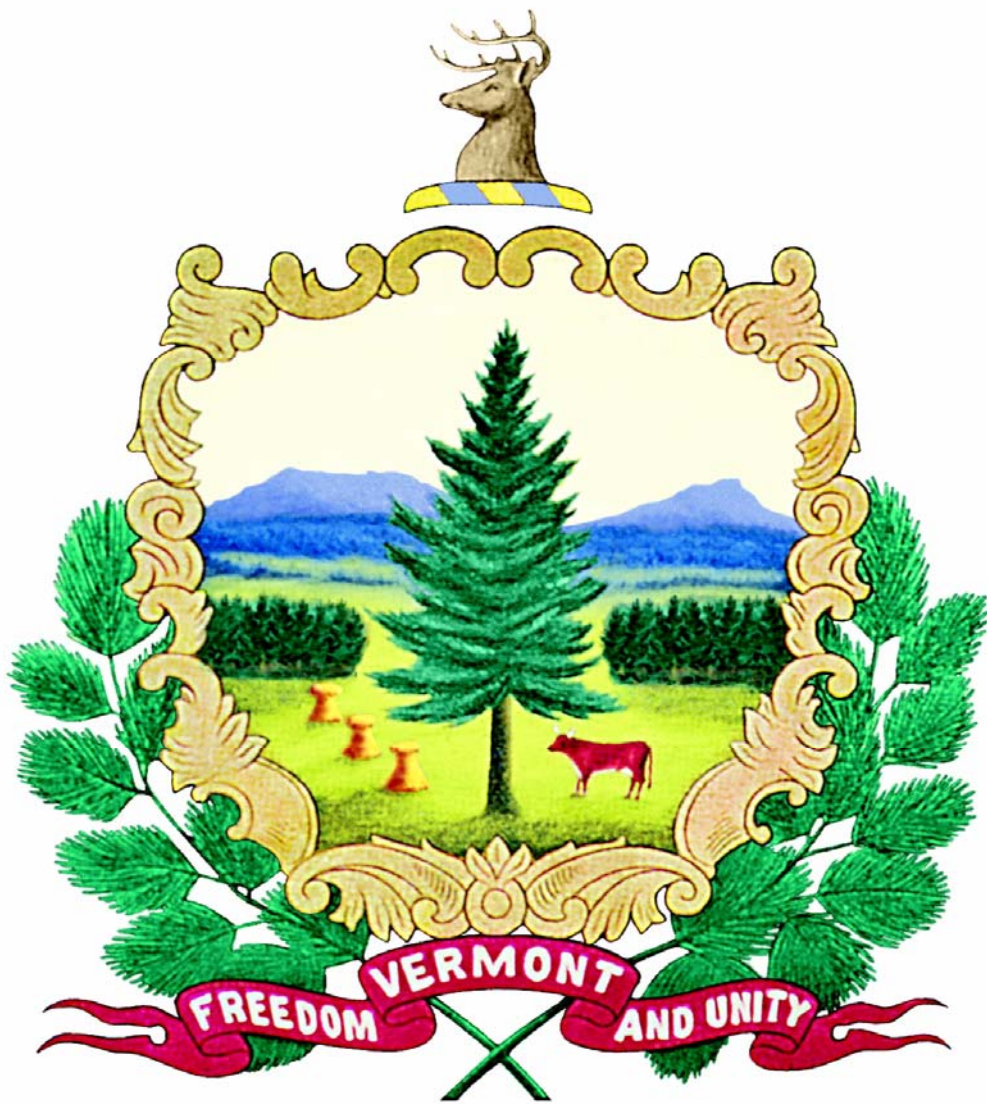
| <u>Special Fund</u>  | <u>Federal Revenue Fund</u> | <u>Total Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|----------------------|-----------------------------|--|---------------------------------|
| \$ -                 | \$ -                        | \$ -                                     | \$ 369,498,175                  |
| -                    | -                           | -  | 33,000,884                      |
| -                    | -                           | -  | 217,983,997                     |
| -                    | -                           | -  | 101,876,104                     |
| 5,226,366            | -                           | 1,015,426                                | 71,257,921                      |
| -                    | -                           | -  | 82,089,177                      |
| -                    | -                           | -  | 453,913,699                     |
| 110,573,401          | -                           | -  | 285,624,932                     |
| 33,522,624           | -                           | 231,456                                  | 47,770,289                      |
| 227,266              | -                           | 66,256                                   | 912,556                         |
| 11,408,701           | -                           | -  | 13,119,135                      |
| -                    | 909,927,497                 | 4,109,066                                | 1,036,188,776                   |
| 3,198,372            | -                           | 34,760                                   | 15,150,570                      |
| 3,027,850            | 323,350                     | 713,891                                  | 5,561,830                       |
| 5,592,014            | -                           | 1,865                                    | 8,998,922                       |
| 2,127,914            | -                           | 6,088,509                                | 62,828,447                      |
| 22,286,195           | -                           | 19,699                                   | 22,454,287                      |
| 77,644,328           | 3,297,237                   | 450,690                                  | 85,137,810                      |
| <b>274,835,031</b>   | <b>913,548,084</b>          | <b>12,731,618</b>                        | <b>2,913,367,511</b>            |
| 8,716,575            | 2,562,390                   | 9,164,326                                | 65,774,389                      |
| 58,651,613           | 32,903,139                  | 2,161,948                                | 186,419,718                     |
| 228,674,088          | 699,272,083                 | 2,345,362                                | 1,202,966,613                   |
| 2,299,071            | 24,276,352                  | -  | 27,904,668                      |
| 14,430,007           | 90,559,263                  | 23,880,138                               | 1,090,652,345                   |
| 22,750,763           | 29,818,050                  | 16,422,291                               | 87,357,285                      |
| 5,441,840            | 14,189,446                  | 879,810                                  | 33,843,415                      |
| 425,503              | -                           | 3  | 284,978,573                     |
| 1,897,774            | -                           | -  | 1,897,774                       |
| 2,491,045            | -                           | -  | 73,213,994                      |
| <b>345,778,279</b>   | <b>893,580,723</b>          | <b>54,853,878</b>                        | <b>3,055,008,774</b>            |
| <b>(70,943,248)</b>  | <b>19,967,361</b>           | <b>(42,122,260)</b>                      | <b>(141,641,263)</b>            |
| -                    | -                           | 35,800,000                               | 35,800,000                      |
| -                    | -                           | -  | 31,555,000                      |
| 190,378              | -                           | -  | 2,413,804                       |
| -                    | -                           | -  | (33,778,426)                    |
| -                    | -                           | -  | 678,750                         |
| 92,772,078           | 2,926,589                   | 370,201                                  | 401,290,002                     |
| (25,352,367)         | (22,959,234)                | (6,797,716)                              | (382,222,560)                   |
| <b>67,610,089</b>    | <b>(20,032,645)</b>         | <b>29,372,485</b>                        | <b>55,736,570</b>               |
| -                    | -                           | -  | (2,204,948)                     |
| <b>(3,333,159)</b>   | <b>(65,284)</b>             | <b>(12,749,775)</b>                      | <b>(88,109,641)</b>             |
| <b>46,009,437</b>    | <b>41,660,632</b>           | <b>68,577,063</b>                        | <b>339,461,551</b>              |
| <b>\$ 42,676,278</b> | <b>\$ 41,595,348</b>        | <b>\$ 55,827,288</b>                     | <b>\$ 251,351,910</b>           |

**State of Vermont**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds to the**  
**Statement of Activities - Governmental Activities**  
**For the Fiscal Year Ended June 30, 2003**

|  |                        |
|--|------------------------|
| <b>Total net change in fund balances from the previous page.....</b>   | <b>\$ (88,109,641)</b> |
| <p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period (net of internal service funds).</p> |                        |
| Capital outlay/functional expenditures.....  | 145,421,670            |
| Depreciation expense and expensed net book value of disposed capital assets.....   | (57,595,361)           |
| <p>Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>  |                        |
| Principal repayment.....   | 51,355,000             |
| Payment to refunding bond escrow agent.....  | 33,778,426             |
| <p>Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.</p>   |                        |
| Bonds issued.....  | (35,800,000)           |
| Refunding bonds issued.....  | (31,555,000)           |
| Bond premium is amortized over the life of the bonds in the statement of activities.....   | (2,202,267)            |
| Refunding bonds gain amortized over the life of the refunded bonds.....  | (889,213)              |
| <p>Bond issuance costs are reported as expenditures in the governmental funds, but this cost is amortized over the life of the bonds in the statement of activities.....</p>   |                        |
|  | 233,360                |
| <p>Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds.....</p>   |                        |
|  | (13,265,108)           |
| <p>Estimated personal income tax refunds that are not due and payable are not governmental fund liabilities.....</p>   |                        |
|  | (6,593,172)            |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>   |                        |
| Net increase in accrued interest payable.....  | (501,109)              |
| Accreted interest on capital appreciation bonds.....   | (3,320,784)            |
| Decrease in compensated absences.....  | 824,555                |
| Increase in employer pension related costs.....  | (7,288,589)            |
| Decrease in arbitrage rebate liability.....  | 305,863                |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.....</p>  |                        |
|  | (4,376,313)            |
| <p>Notes and loans issued by governmental funds are reported as an expenditure in governmental funds and repayments are reported as a revenue in the governmental funds, but the issuances and repayment increase or decrease notes and loans receivable in the statement of net assets.....</p>                                   |                        |
|  | 9,097,401              |
| <b>Total changes in net assets of governmental activities as reported on the statement of activities.....</b>  | <b>\$ (10,480,282)</b> |

The accompanying notes are an integral part of the financial statements.





***PROPRIETARY  
FINANCIAL STATEMENTS***

**STATE OF VERMONT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2003**

|  | <b>Business-type Activities - Enterprise Funds</b>  |                                    |   |
|--|---|------------------------------------|---|
|  | <b>Unemployment<br/>Compensation<br/>Trust Fund</b> | <b>Liquor<br/>Control<br/>Fund</b> | <b>Vermont<br/>Lottery<br/>Commission</b> |
| <b>ASSETS</b>  |   |                                    |   |
| <b>Current Assets:</b>   |   |                                    |   |
| Cash and cash equivalents.....                                 | \$ 259,391,051                                      | \$ 1,977,126                       | \$ 583,725                                |
| Investments.....   | -   | -                                  | 4,371,623                                 |
| Receivables:   |   |                                    |   |
| Taxes receivable.....  | 8,333,809   | -                                  | -   |
| Accrued interest receivable.....                               | -   | -                                  | -   |
| Accounts receivable (net of allowance for uncollectibles)..... | 142,027   | 230,384                            | 508,252                                   |
| Loans receivable.....  | -   | -                                  | -   |
| Due from other funds.....                                      | -   | -                                  | 214,660                                   |
| Intergovernmental receivable - federal.....                    | 718,345   | -                                  | -   |
| Inventories, at cost.....                                      | -   | 3,339,226                          | 438,079                                   |
| Prepaid expenses.....  | -   | -                                  | -   |
| <b>Total current assets.....</b>                               | <b>268,585,232</b>                                  | <b>5,546,736</b>                   | <b>6,116,339</b>                          |
| <b>Restricted and Noncurrent Assets:</b>                       |   |                                    |   |
| Cash-subscription reserve fund.....                            | -   | -                                  | -   |
| Loans receivable.....  | -   | -                                  | -   |
| Accounts receivable - subscriptions.....                       | -   | -                                  | -   |
| Imprest cash and change fund - advances.....                   | -   | 5,700                              | -   |
| <b>Total restricted &amp; noncurrent assets.....</b>           | <b>0</b>  | <b>5,700</b>                       | <b>0</b>                                  |
| <b>Capital Assets:</b>   |   |                                    |   |
| Land.....  | -   | -                                  | -   |
| Construction in Process.....                                   | -   | -                                  | -   |
| Machinery, equipment and buildings.....                        | -   | 845,776                            | 259,280                                   |
| Less accumulated depreciation.....                             | -   | (400,206)                          | (179,614)                                 |
| <b>Total capital assets, net of depreciation.....</b>          | <b>0</b>  | <b>445,570</b>                     | <b>79,666</b>                             |
| <b>Total assets.....</b>                                       | <b>268,585,232</b>                                  | <b>5,998,006</b>                   | <b>6,196,005</b>                          |
| <b>LIABILITIES</b>   |   |                                    |   |
| <b>Current Liabilities:</b>                                    |   |                                    |   |
| Accounts payable.....  | 3,566,987   | 5,607,061                          | 247,524                                   |
| Accrued salaries and benefits.....                             | -   | 304,755                            | 110,344                                   |
| Claims payable.....  | -   | -                                  | 3,256,533                                 |
| Due to agents.....   | -   | 172,227                            | -   |
| Due to other funds.....  | 28,875  | 286,122                            | 730,713                                   |
| Interfund payable.....   | -   | -                                  | -   |
| Future and unclaimed prizes payable.....                       | -   | -                                  | 879,715                                   |
| Deferred revenue.....  | -   | -                                  | 273,645                                   |
| <b>Total current liabilities.....</b>                          | <b>3,595,862</b>                                    | <b>6,370,165</b>                   | <b>5,498,474</b>                          |
| <b>Liabilities Payable From Restricted Assets:</b>             |   |                                    |   |
| Unexpired subscriptions.....                                   | -   | -                                  | -   |
| Cash advances by state treasurer.....                          | -   | 5,700                              | 300,000                                   |
| <b>Total liabilities payable from restricted assets.....</b>   | <b>0</b>  | <b>5,700</b>                       | <b>300,000</b>                            |
| <b>Total liabilities.....</b>                                  | <b>3,595,862</b>                                    | <b>6,375,865</b>                   | <b>5,798,474</b>                          |
| <b>NET ASSETS</b>  |   |                                    |   |
| Invested in capital assets, net of related debt.....           | -   | 445,570                            | 79,666                                    |
| Restricted for unemployment compensation benefits.....         | 264,989,370   | -                                  | -   |
| Unrestricted.....  | -   | (823,429)                          | 317,865                                   |
| <b>Total net assets.....</b>                                   | <b>\$ 264,989,370</b>                               | <b>\$ (377,859)</b>                | <b>\$ 397,531</b>                         |

The notes to the financial statements are an integral part of this statement.

| <b>Business-type Activities - Enterprise Funds</b> |                               | <b>Governmental Activities</b>      |  |
|--|-------------------------------|-------------------------------------|--|
| <b>Total Nonmajor Enterprise Funds</b>             | <b>Total Enterprise Funds</b> | <b>Total Internal Service Funds</b> |  |
| \$ 1,154,408                                       | \$ 263,106,310                | \$ 40,309,790                       |  |
| -  | 4,371,623                     | -                                   |  |
| -  | 8,333,809                     | -                                   |  |
| 22,035   | 22,035                        | -                                   |  |
| 159,660  | 1,040,323                     | 11,849,980                          |  |
| 1,676,022  | 1,676,022                     | -                                   |  |
| 28,875   | 243,535                       | 78,047                              |  |
| -  | 718,345                       | -                                   |  |
| 1,001,195  | 4,778,500                     | 3,003,115                           |  |
| 123,455  | 123,455                       | 921,489                             |  |
| <b>4,165,650</b>                                   | <b>284,413,957</b>            | <b>56,162,421</b>                   |  |
| 666,859  | 666,859                       | -                                   |  |
| 801,121  | 801,121                       | -                                   |  |
| 60,734   | 60,734                        | -                                   |  |
| 2,900  | 8,600                         | 15,100                              |  |
| <b>1,531,614</b>                                   | <b>1,537,314</b>              | <b>15,100</b>                       |  |
| -  | -                             | 26,156                              |  |
| -  | -                             | 412,539                             |  |
| 79,173   | 1,184,229                     | 49,224,575                          |  |
| (70,639)   | (650,459)                     | (24,544,496)                        |  |
| <b>8,534</b>                                       | <b>533,770</b>                | <b>25,118,774</b>                   |  |
| <b>5,705,798</b>                                   | <b>286,485,041</b>            | <b>81,296,295</b>                   |  |
| 48,305   | 9,469,877                     | 4,816,165                           |  |
| 73,530   | 488,629                       | 2,076,489                           |  |
| -  | 3,256,533                     | 33,404,415                          |  |
| -  | 172,227                       | -                                   |  |
| -  | 1,045,710                     | 113,494                             |  |
| 425,022  | 425,022                       | 24,295,472                          |  |
| -  | 879,715                       | -                                   |  |
| 946,080  | 1,219,725                     | 1,313,735                           |  |
| <b>1,492,937</b>                                   | <b>16,957,438</b>             | <b>66,019,770</b>                   |  |
| 666,859  | 666,859                       | -                                   |  |
| 2,900  | 308,600                       | 15,100                              |  |
| <b>669,759</b>                                     | <b>975,459</b>                | <b>15,100</b>                       |  |
| <b>2,162,696</b>                                   | <b>17,932,897</b>             | <b>66,034,870</b>                   |  |
| 8,534  | 533,770                       | 25,118,774                          |  |
| -  | 264,989,370                   | -                                   |  |
| 3,534,568  | 3,029,004                     | (9,857,349)                         |  |
| <b>\$ 3,543,102</b>                                | <b>\$ 268,552,144</b>         | <b>\$ 15,261,425</b>                |  |

Adjustment to reflect the consolidation of internal service activities related to enterprise funds ..... 93,079  
Net Assets - Business-type Activities..... \$ 268,645,223

**STATE OF VERMONT  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | <u>Business-type Activities - Enterprise Funds</u>  |                                    |   |
|--|---|------------------------------------|---|
|  | <u>Unemployment<br/>Compensation<br/>Trust Fund</u> | <u>Liquor<br/>Control<br/>Fund</u> | <u>Vermont<br/>Lottery<br/>Commission</u> |
| <b>Operating Revenues</b>  |   |                                    |   |
| Charges for sales and services.....                              | \$ 38,309,410                                       | \$ 33,043,684                      | \$ -                                      |
| Ticket sales.....  | -   | -                                  | 79,402,557                                |
| Rental income.....   | -   | -                                  | -   |
| License fees.....  | -   | 224,867                            | 9,890                                     |
| Federal donated property.....                                    | -   | -                                  | -   |
| Advertising revenue.....   | -   | -                                  | -   |
| Other operating revenues.....                                    | 25,323,628  | 985,596                            | -   |
| <b>Total operating revenues.....</b>                             | <b>63,633,038</b>                                   | <b>34,254,147</b>                  | <b>79,412,447</b>                         |
| <b>Operating Expenses</b>  |   |                                    |   |
| Cost of sales and services.....                                  | 124,394,658   | 27,019,386                         | -   |
| Cash and free ticket prizes.....                                 | -   | -                                  | 51,400,033                                |
| Agents commissions and fees.....                                 | -   | -                                  | 4,590,682                                 |
| Megabucks expenses.....  | -   | -                                  | 3,400,237                                 |
| Lottery tickets.....   | -   | -                                  | 1,528,323                                 |
| Salaries and benefits.....                                       | -   | -                                  | 1,053,634                                 |
| Insurance premium expense.....                                   | -   | -                                  | -   |
| Transportation.....  | -   | -                                  | 152,356                                   |
| Warehouse expense.....   | -   | 923,548                            | -   |
| Depreciation.....  | -   | 123,544                            | 56,927                                    |
| Rentals.....   | -   | -                                  | 54,094                                    |
| Utilities.....   | -   | -                                  | -   |
| Stores and agencies expense.....                                 | -   | 3,602,228                          | -   |
| Promotions and advertising.....                                  | -   | -                                  | -   |
| Administration.....  | -   | 1,339,853                          | 701,285                                   |
| Inspection and enforcement expense.....                          | -   | 1,320,495                          | -   |
| Supplies and parts.....  | -   | -                                  | 25,800                                    |
| Distribution and postage.....                                    | -   | -                                  | -   |
| Travel.....  | -   | -                                  | -   |
| Loss on bad debts.....   | -   | -                                  | 11,774                                    |
| Other operating expenses.....                                    | 5,921,068   | 2,153                              | 681,729                                   |
| <b>Total operating expenses.....</b>                             | <b>130,315,726</b>                                  | <b>34,331,207</b>                  | <b>63,656,874</b>                         |
| <b>Operating income (loss).....</b>                              | <b>(66,682,688)</b>                                 | <b>(77,060)</b>                    | <b>15,755,573</b>                         |
| <b>Non-Operating Revenues (Expenses)</b>                         |   |                                    |   |
| Gain (loss) on disposal of fixed assets.....                     | -   | 2,348                              | (3,280)                                   |
| Other.....   | 3,578   | -                                  | -   |
| Interest expense.....  | -   | -                                  | -   |
| Investment income.....   | 17,526,867  | -                                  | 470,311                                   |
| <b>Total non-operating revenues (expenses).....</b>              | <b>17,530,445</b>                                   | <b>2,348</b>                       | <b>467,031</b>                            |
| <b>Income (loss) before contributions<br/>and transfers.....</b> | <b>(49,152,243)</b>                                 | <b>(74,712)</b>                    | <b>16,222,604</b>                         |
| Capital contributions from other funds.....                      | -   | -                                  | -   |
| Transfer in.....   | 247,497   | -                                  | -   |
| Transfer (out).....  | (318,075)   | (359,779)                          | (16,222,604)                              |
| <b>Changes in net assets.....</b>                                | <b>(49,222,821)</b>                                 | <b>(434,491)</b>                   | <b>-</b>                                  |
| <b>Total net assets July 1, restated (see Note 10).....</b>      | <b>314,212,191</b>                                  | <b>56,632</b>                      | <b>397,531</b>                            |
| <b>Total net assets June 30.....</b>                             | <b>\$ 264,989,370</b>                               | <b>\$ (377,859)</b>                | <b>\$ 397,531</b>                         |

The accompanying notes are an integral part of these financial statements.

| <b>Business-type Activities - Enterprise Funds</b> |                               | <b>Governmental Activities</b>      |
|--|-------------------------------|-------------------------------------|
| <b>Total Nonmajor Enterprise Funds</b>             | <b>Total Enterprise Funds</b> | <b>Total Internal Service Funds</b> |
| \$ 1,691,876                                       | \$ 73,044,970                 | \$ 140,768,461                      |
| -  | 79,402,557                    | -                                   |
| -  | -                             | 9,679,965                           |
| -  | 234,757                       | -                                   |
| 559,263  | 559,263                       | -                                   |
| 486,239  | 486,239                       | -                                   |
| 182,698  | 26,491,922                    | 1,943,762                           |
| <b>2,920,076</b>                                   | <b>180,219,708</b>            | <b>152,392,188</b>                  |
| 1,188,006  | 152,602,050                   | 103,428,502                         |
| -  | 51,400,033                    | -                                   |
| -  | 4,590,682                     | -                                   |
| -  | 3,400,237                     | -                                   |
| -  | 1,528,323                     | -                                   |
| 868,657  | 1,922,291                     | 20,553,291                          |
| -  | -                             | 5,550,479                           |
| 32,936   | 185,292                       | 32,680                              |
| -  | 923,548                       | -                                   |
| 4,766  | 185,237                       | 4,464,101                           |
| 30,402   | 84,496                        | 1,878,930                           |
| 922  | 922                           | 448,117                             |
| -  | 3,602,228                     | -                                   |
| 317,252  | 317,252                       | -                                   |
| 199,505  | 2,240,643                     | 7,802,265                           |
| -  | 1,320,495                     | -                                   |
| 20,873   | 46,673                        | 1,448,991                           |
| 217,329  | 217,329                       | 37,762                              |
| 16,177   | 16,177                        | -                                   |
| 7,838  | 19,612                        | -                                   |
| 118,034  | 6,722,984                     | 10,855,406                          |
| <b>3,022,697</b>                                   | <b>231,326,504</b>            | <b>156,500,524</b>                  |
| <b>(102,621)</b>                                   | <b>(51,106,796)</b>           | <b>(4,108,336)</b>                  |
| -  | (932)                         | 65,798                              |
| -  | 3,578                         | 19,424                              |
| -  | -                             | (1,168)                             |
| 14,459   | 18,011,637                    | 420,136                             |
| <b>14,459</b>                                      | <b>18,014,283</b>             | <b>504,190</b>                      |
| <b>(88,162)</b>                                    | <b>(33,092,513)</b>           | <b>(3,604,146)</b>                  |
| -  | -                             | 6,723                               |
| 318,075  | 565,572                       | 1,995,698                           |
| (247,497)  | (17,147,955)                  | (2,798,208)                         |
| <b>(17,584)</b>                                    | <b>(49,674,896)</b>           | <b>(4,399,933)</b>                  |
| <b>3,560,686</b>                                   | <b>318,227,040</b>            | <b>19,661,358</b>                   |
| <b>\$ 3,543,102</b>                                | <b>\$ 268,552,144</b>         | <b>\$ 15,261,425</b>                |

Total change in net assets reported above (49,674,896)  
Consolidation adjustment of internal service activities related to Enterprise Funds (23,620)  
Change in Net Assets - Business-type Activities \$ (49,698,516)

**STATE OF VERMONT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

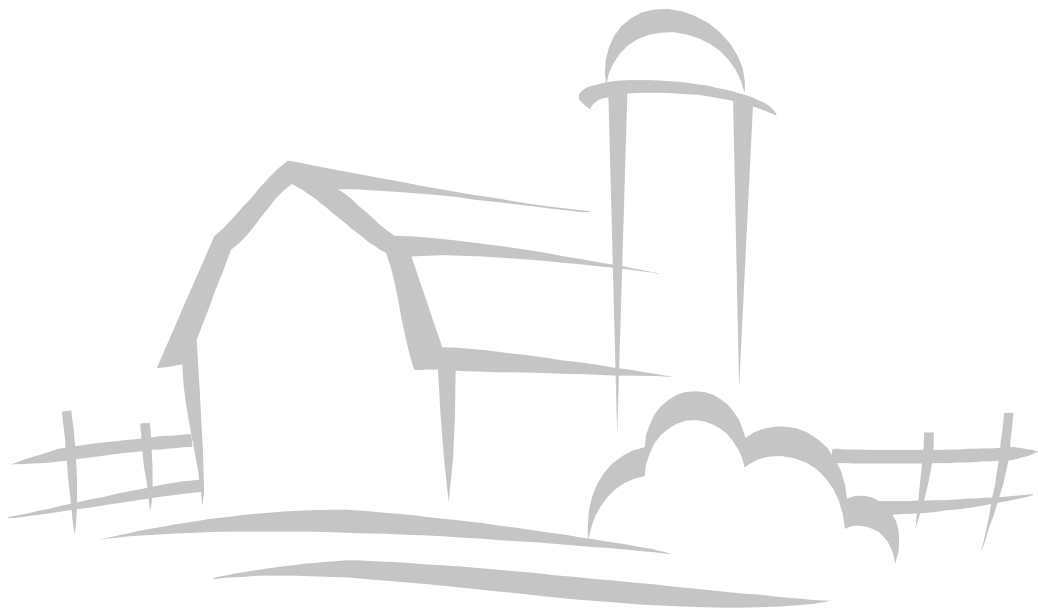
|  | <b>Business-type Activities - Enterprise Funds</b>  |                                    |   |
|--|---|------------------------------------|---|
|  | <b>Unemployment<br/>Compensation<br/>Trust Fund</b> | <b>Liquor<br/>Control<br/>Fund</b> | <b>Vermont<br/>Lottery<br/>Commission</b> |
|  |   |                                    |   |
| <b>Cash Flows from Operating Activities:</b>   |   |                                    |   |
| Cash received from customers.....  | \$ 44,298,795                                       | \$ 44,661,700                      | \$ 79,502,346                             |
| Cash paid to suppliers for goods and services.....   | -   | (31,124,252)                       | -   |
| Loans received (made).....   | -   | -                                  | -   |
| Cash paid to employees for services.....   | -   | (2,852,977)                        | (793,597)                                 |
| Cash paid for prizes and commissions.....  | -   | -                                  | (55,989,673)                              |
| Cash paid to claimants.....  | (105,293,121)                                       | -                                  | -   |
| Liquor taxes and licenses paid.....  | -   | (11,467,664)                       | -   |
| Cash paid for fees, operations and other.....  | -   | -                                  | (7,292,158)                               |
| Other operating revenues (expenses).....   | (5,493,159)   | 983,444                            | 9,890                                     |
| <b>Net cash provided (used) by operating activities.....</b>                                   | <b>(66,487,485)</b>                                 | <b>200,251</b>                     | <b>15,436,808</b>                         |
| <b>Cash Flows from Noncapital Financing Activities:</b>  |   |                                    |   |
| Operating/equity transfers in (out).....   | -   | (359,779)                          | (15,534,133)                              |
| Other.....   | -   | -                                  | -   |
| Interfund loans and advances.....  | -   | -                                  | (200,000)                                 |
| <b>Net cash provided (used) by noncapital financing activities.....</b>                        | <b>0</b>  | <b>(359,779)</b>                   | <b>(15,734,133)</b>                       |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                               |   |                                    |   |
| Acquisition and construction of capital assets.....  | -   | (194,846)                          | (13,750)                                  |
| Proceeds from sale of capital assets.....  | -   | 6,718                              | -   |
| <b>Net cash provided (used) by capital and related financing activities.....</b>               | <b>0</b>  | <b>(188,128)</b>                   | <b>(13,750)</b>                           |
| <b>Cash Flows From Investing Activities:</b>   |   |                                    |   |
| Interest and dividends on investments.....   | 17,530,445  | -                                  | 96,039                                    |
| Proceeds from sales/maturities of investments.....   | -   | -                                  | 434,000                                   |
| Interest & penalties received (paid).....  | (329,057)   | -                                  | -   |
| Excess cash transferred.....   | 247,497   | -                                  | -   |
| <b>Net cash provided (used) by investing activities.....</b>                                   | <b>17,448,885</b>                                   | <b>0</b>                           | <b>530,039</b>                            |
| <b>Net increase (decrease) in cash and cash equivalents.....</b>                               | <b>(49,038,600)</b>                                 | <b>(347,656)</b>                   | <b>218,964</b>                            |
| <b>Cash and cash equivalents at July 1, .....</b>  | <b>308,429,651</b>                                  | <b>2,330,482</b>                   | <b>364,761</b>                            |
| <b>Cash and cash equivalents at June 30 ( see note below).....</b>                             | <b>\$ 259,391,051</b>                               | <b>\$ 1,982,826</b>                | <b>\$ 583,725</b>                         |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>        |   |                                    |   |
| Operating income (loss).....   | \$ (66,682,688)                                     | \$ (77,060)                        | \$ 15,755,573                             |
| <b>Adjustments to reconcile operating income to net cash provided by operating activities:</b> |   |                                    |   |
| Depreciation and amortization.....   | -   | 123,544                            | 56,927                                    |
| (Increase) decrease in accounts/taxes receivable.....  | 198,780   | (74,514)                           | 65,013                                    |
| (Increase) decrease in loans receivable.....   | -   | -                                  | -   |
| (Increase) decrease in accrued interest receivable.....  | -   | -                                  | -   |
| (Increase) decrease in due from other funds.....   | -   | -                                  | -   |
| (Increase) decrease in inventory.....  | -   | 179,274                            | 19,944                                    |
| (Increase) decrease in prepaid expenses.....   | -   | -                                  | -   |
| (Increase) decrease in other assets.....   | (137,696)   | -                                  | -   |
| Increase (decrease) in accounts payable.....   | -   | 3,225                              | (476,523)                                 |
| Increase (decrease) in accrued salaries and benefits.....                                      | -   | 13,822                             | -   |
| Increase (decrease) in claims payable.....   | 20,767  | -                                  | (414,375)                                 |
| Increase (decrease) in due to agents.....  | -   | (8,501)                            | -   |
| Increase (decrease) in future and unclaimed prizes payable.....                                | -   | -                                  | 395,472                                   |
| Increase (decrease) in deferred revenue.....   | -   | -                                  | 34,777                                    |
| Increase (decrease) in due to other funds.....   | -   | 40,461                             | -   |
| Increase (decrease) in other liabilities.....  | 113,352   | -                                  | -   |
| Increase (decrease) in subscription reserves.....  | -   | -                                  | -   |
| <b>Total adjustments.....</b>  | <b>195,203</b>                                      | <b>277,311</b>                     | <b>(318,765)</b>                          |
| <b>Net cash provided (used) by operating activities.....</b>                                   | <b>\$ (66,487,485)</b>                              | <b>\$ 200,251</b>                  | <b>\$ 15,436,808</b>                      |

**NOTE:** Total cash/cash equivalents at June 30 on the cash flow statement is equal to cash/cash equivalents, cash-subscription reserve fund, and Imprest cash on the Statement of Net Assets.

The accompanying notes are an integral part of the financial statements.

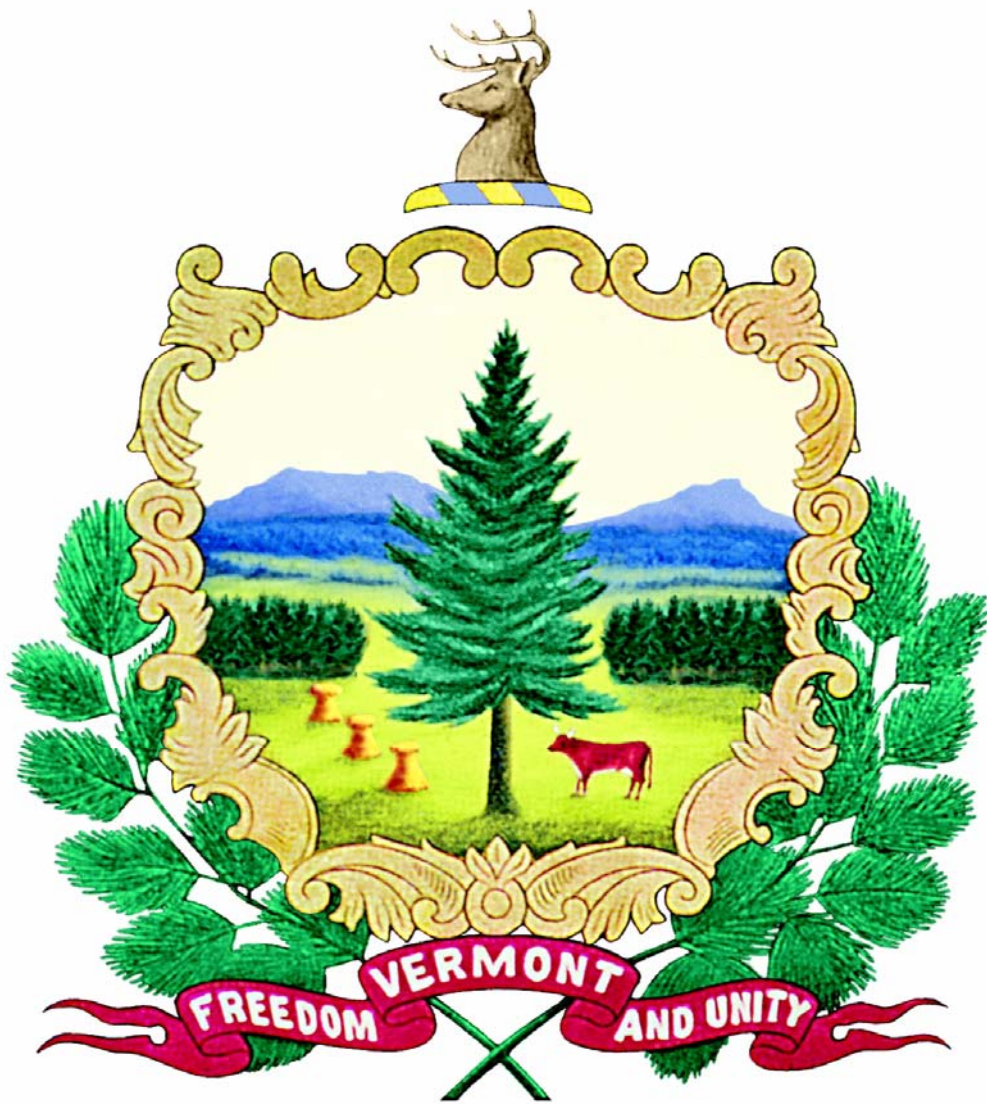
| <b>Business-type Activities - Enterprise Funds</b> |                               | <b>Governmental Activities</b>      |  |
|--|-------------------------------|-------------------------------------|--|
| <b>Total Nonmajor Enterprise Funds</b>             | <b>Total Enterprise Funds</b> | <b>Total Internal Service Funds</b> |  |
| \$ 3,533,614                                       | \$ 171,996,455                | \$ 151,023,770                      |  |
| (2,469,629)  | (33,593,881)                  | (57,354,232)                        |  |
| 51,260   | 51,260                        | -                                   |  |
| (860,712)  | (4,507,286)                   | (21,233,820)                        |  |
| -  | (55,989,673)                  | (68,552,442)                        |  |
| -  | (105,293,121)                 | -                                   |  |
| -  | (11,467,664)                  | -                                   |  |
| -  | (7,292,158)                   | -                                   |  |
| 35,690   | (4,464,135)                   | 1,279,587                           |  |
| <b>290,223</b>                                     | <b>(50,560,203)</b>           | <b>5,162,863</b>                    |  |
| -  | (15,893,912)                  | (732,310)                           |  |
| -  | -                             | 19,424                              |  |
| 51,374   | (148,626)                     | 6,232,471                           |  |
| <b>51,374</b>                                      | <b>(16,042,538)</b>           | <b>5,519,585</b>                    |  |
| (13,300)   | (221,896)                     | (7,483,401)                         |  |
| -  | 6,718                         | 420,986                             |  |
| <b>(13,300)</b>                                    | <b>(215,178)</b>              | <b>(7,062,415)</b>                  |  |
| 14,459   | 17,640,943                    | 419,348                             |  |
| -  | 434,000                       | -                                   |  |
| 329,057  | -                             | -                                   |  |
| (247,497)  | -                             | -                                   |  |
| <b>96,019</b>                                      | <b>18,074,943</b>             | <b>419,348</b>                      |  |
| <b>424,316</b>                                     | <b>(48,742,976)</b>           | <b>4,039,381</b>                    |  |
| <b>1,399,851</b>                                   | <b>312,519,045</b>            | <b>36,270,409</b>                   |  |
| <b>\$ 1,824,167</b>                                | <b>\$ 263,776,069</b>         | <b>\$ 40,309,790</b>                |  |
| \$ (102,621)                                       | \$ (51,106,796)               | \$ (4,108,336)                      |  |
| 4,766  | 185,237                       | 4,464,101                           |  |
| 118,414  | 307,693                       | 181,371                             |  |
| 334,629  | 334,629                       | -                                   |  |
| (9,579)  | (9,579)                       | -                                   |  |
| -  | -                             | 2,238                               |  |
| (106,237)  | 92,981                        | (506,822)                           |  |
| 22,581   | 22,581                        | (126,264)                           |  |
| -  | (137,696)                     | -                                   |  |
| (62,658)   | (535,956)                     | (901,712)                           |  |
| 5,964  | 19,786                        | 394,792                             |  |
| -  | (393,608)                     | 5,396,479                           |  |
| -  | (8,501)                       | -                                   |  |
| -  | 395,472                       | -                                   |  |
| 108,079  | 142,856                       | 1,141,285                           |  |
| -  | 40,461                        | (774,269)                           |  |
| -  | 113,352                       | -                                   |  |
| (23,115)   | (23,115)                      | -                                   |  |
| <b>392,844</b>                                     | <b>546,593</b>                | <b>9,271,199</b>                    |  |
| <b>\$ 290,223</b>                                  | <b>\$ (50,560,203)</b>        | <b>\$ 5,162,863</b>                 |  |

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*Vermont*





***FIDUCIARY FUNDS  
FINANCIAL STATEMENTS***

**STATE OF VERMONT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2003**

|  | <b>Pension<br/>Trust<br/>Funds</b> | <b>Private<br/>Purpose<br/>Trust Funds</b> | <b>Agency<br/>Funds</b> |
|--|------------------------------------|--|-------------------------|
|  | <u>          </u>                  | <u>          </u>                          | <u>          </u>       |
| <b>ASSETS</b>  |                                    |  |                         |
| Cash and cash equivalents.....                                       | \$ 61,861,404                      | \$ 1,702,329                               | \$ 16,811,060           |
| Investments at fair value.....                                       | 2,308,399,895                      | -  | -                       |
| Receivables:   |                                    |  |                         |
| Taxes.....   | -                                  | -  | 1,392,976               |
| Contributions.....   | 4,059,113                          | -  | -                       |
| Investment principal and interest.....                               | 11,193,441                         | -  | -                       |
| Investments sold.....  | 115,049,787                        | -  | -                       |
| Other.....   | 10,244,344                         | -  | 447,584                 |
| Due from other funds.....  | -                                  | -  | 224,262                 |
| Prepaid expenses.....  | 894,847                            | -  | -                       |
|  | <u>2,511,702,831</u>               | <u>1,702,329</u>                           | <u>18,875,882</u>       |
| <b>LIABILITIES</b>   |                                    |  |                         |
| Liabilities:   |                                    |  |                         |
| Accounts payable.....  | 2,505,202                          | 8,240                                      | -                       |
| Accrued liabilities.....   | 41,900                             | 8,300                                      | -                       |
| Claims payable.....  | -                                  | 1,365,221                                  | -                       |
| Due to other funds.....  | -                                  | 30,337                                     | 4,690,276               |
| Interfund loans payable.....   | -                                  | -  | 428,476                 |
| Due to depositories.....   | -                                  | -  | 361,964                 |
| Intergovernmental payable - other governments.....                   | -                                  | -  | 2,464,176               |
| Amounts held in custody for others.....                              | -                                  | -  | 10,014,008              |
| Payable for investments purchased.....                               | 155,299,422                        | -  | -                       |
| Other liabilities.....   | -                                  | -  | 916,982                 |
|  | <u>157,846,524</u>                 | <u>1,412,098</u>                           | <u>\$ 18,875,882</u>    |
| <b>Net assets held in trust for benefits &amp; other purposes...</b> | <b><u>\$ 2,353,856,307</u></b>     | <b><u>\$ 290,231</u></b>                   |                         |
| <b><u>RECONCILIATION OF NET ASSETS HELD IN TRUST:</u></b>            |                                    |  |                         |
| Employees' pension benefits.....                                     | \$ 2,353,856,307                   | \$ -                                       |                         |
| Other purposes.....  | -                                  | 290,231                                    |                         |
| <b>Net assets held in trust for benefits &amp; other purposes...</b> | <b><u>\$ 2,353,856,307</u></b>     | <b><u>\$ 290,231</u></b>                   |                         |

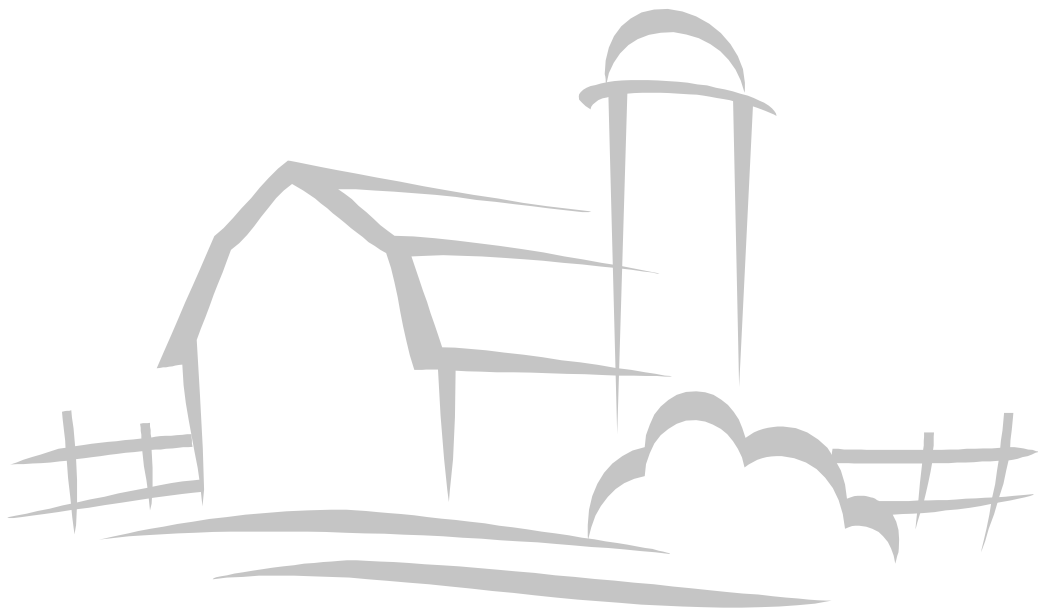
The accompanying notes are an integral part of the financial statements.

**STATE OF VERMONT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

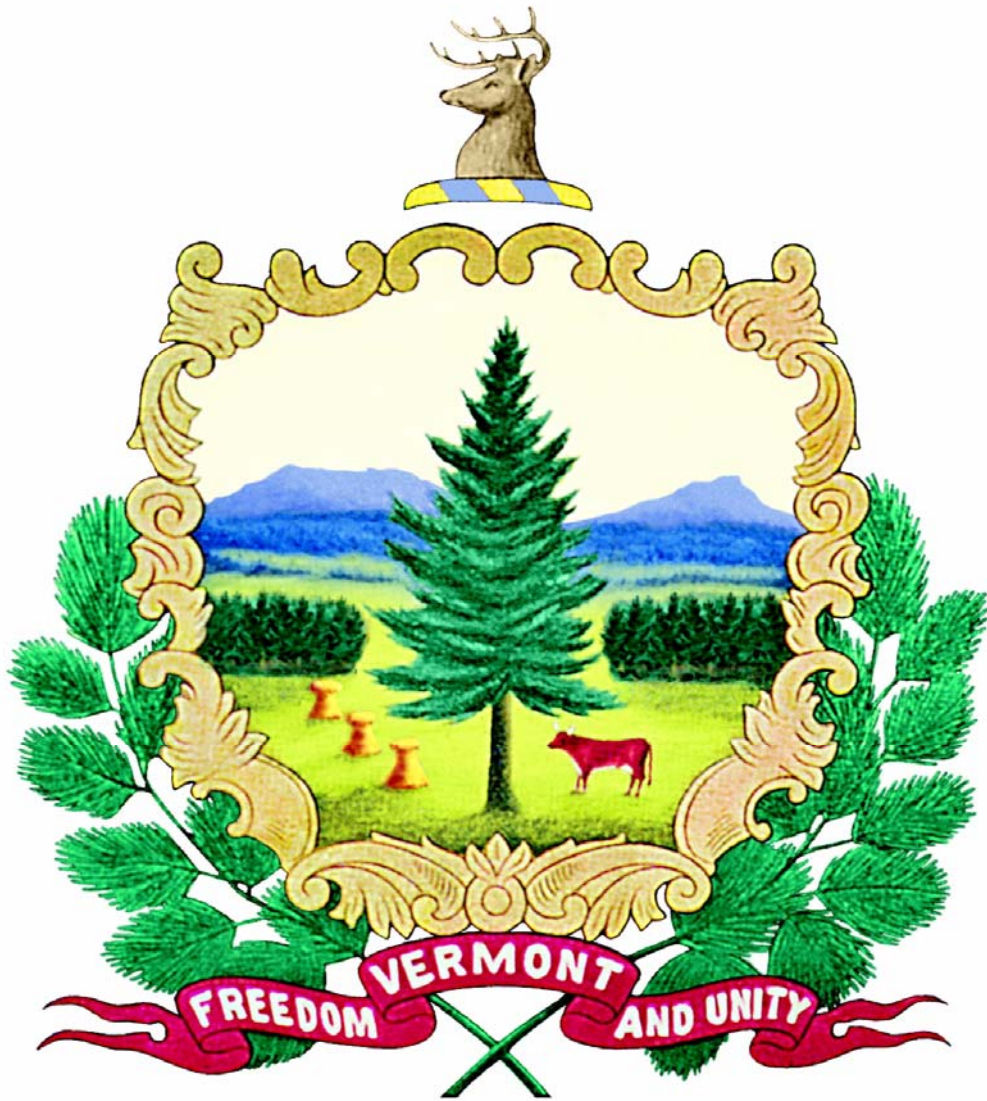
|  | <b>Pension<br/>Trust<br/>Funds</b> | <b>Private<br/>Purpose Trust<br/>Funds</b> |
|--|------------------------------------|--|
|  | <u>                    </u>        | <u>                    </u>                |
| <b>ADDITIONS</b>   |                                    |  |
| Contributions:   |                                    |  |
| Employer.....  | \$ 52,380,128                      | \$ -                                       |
| Plan member.....   | 36,992,076                         | -  |
| Transfers from non-state systems.....                              | 17,664,477                         | -  |
| Total contributions.....   | <u>107,036,681</u>                 | <u>0</u>                                   |
| Investment Income:   |                                    |  |
| Net appreciation in<br>fair value of investments.....              | 48,668,431                         | -  |
| Dividends.....   | 24,469,494                         | -  |
| Interest income.....   | 40,275,814                         | 52,700                                     |
| Securities lending income.....                                     | 1,853,172                          | -  |
| Other income.....  | 300,694                            | -  |
| Less Investment Expenses:  |                                    |  |
| Investment managers and consultants.....                           | (8,395,535)                        | -  |
| Securities lending expenses.....                                   | (1,416,944)                        | -  |
| Net investment income.....   | <u>105,755,126</u>                 | <u>52,700</u>                              |
| Escheat property remittances.....                                  | -                                  | 1,761,422                                  |
| <b>Total additions.....</b>  | <b><u>212,791,807</u></b>          | <b><u>1,814,122</u></b>                    |
| <b>DEDUCTIONS</b>  |                                    |  |
| Retirement benefits.....   | 104,644,799                        | -  |
| Refunds of contributions.....                                      | 2,430,218                          | -  |
| Death claims.....  | 242,090                            | -  |
| Operating expenses.....  | 18,651,283                         | 291,380                                    |
| Transfers out.....   | -                                  | 1,682,549                                  |
| <b>Total deductions.....</b>                                       | <b><u>125,968,390</u></b>          | <b><u>1,973,929</u></b>                    |
| <b>Change in net assets.....</b>                                   | <b>86,823,417</b>                  | <b>(159,807)</b>                           |
| <b>Net assets held in trust for benefits &amp; other purposes:</b> |                                    |  |
| beginning of fiscal year .....                                     | <u>2,267,032,890</u>               | <u>450,038</u>                             |
| end of fiscal year.....  | <u><u>\$ 2,353,856,307</u></u>     | <u><u>\$ 290,231</u></u>                   |

The accompanying notes are an integral part of the financial statements.

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*Vermont*



***Component Unit  
Financial Statements***

STATE OF VERMONT  
STATEMENT OF NET ASSETS  
COMPONENT UNITS  
June 30, 2003

| ASSETS   | Vermont<br>Student<br>Assistance<br>Corporation<br>06/30/03 | University of<br>Vermont and<br>State Agricultural<br>College<br>06/30/03 | Vermont<br>State<br>Colleges<br>06/30/03 | Total<br>Nonmajor<br>Component<br>Units | Total<br>Component<br>Units |
|--|---|---|--|---|-----------------------------|
| <b>Current Assets:</b>                                       |   |   |  |   |                             |
| Cash and cash equivalents.....                               | \$ 261,668,000  | \$ 18,823,000   | \$ 6,487,350                             | \$ 34,812,344                           | \$ 321,790,694              |
| Investments.....   | 10,870,000  | 85,221,000  | 3,080,124                                | 24,968,137                              | 124,139,261                 |
| Accounts receivable.....                                     | -   | 23,181,000  | 8,550,389                                | 213,071                                 | 31,944,460                  |
| Accrued interest receivable - loans.....                     | 23,489,000  | -   | -  | 8,360,670                               | 31,849,670                  |
| Accrued interest receivable - investments.....               | 278,000   | -   | -  | 81,526                                  | 359,526                     |
| Loans and notes receivable - current portion.....            | 95,335,000  | 3,175,000   | -  | 42,622,397                              | 141,132,397                 |
| Other receivables.....                                       | 800,000   | 2,925,000   | -  | 36,722                                  | 3,761,722                   |
| Due from federal government.....                             | 410,000   | -   | -  | 14,693,246                              | 15,103,246                  |
| Due from primary government.....                             | -   | -   | -  | 41,655                                  | 41,655                      |
| Inventories (at cost).....                                   | -   | 1,922,000   | 111,154                                  | 130,255                                 | 2,163,409                   |
| Prepaid expenses.....  | -   | 7,398,000   | -  | 10,382                                  | 7,408,382                   |
| Other current assets.....                                    | 1,485,000   | -   | 493,243                                  | 269,516                                 | 2,247,759                   |
| <b>Total current assets.....</b>                             | <b>394,335,000</b>  | <b>142,645,000</b>  | <b>18,722,260</b>                        | <b>126,239,921</b>                      | <b>681,942,181</b>          |
| <b>Restricted and Non-Current Assets:</b>                    |   |   |  |   |                             |
| Cash.....  | -   | 3,857,000   | 826,671                                  | 4,296,906                               | 8,980,577                   |
| Investments.....   | -   | 301,305,000   | 21,110,369                               | 42,693,315                              | 365,108,684                 |
| Deferred bond issue costs.....                               | 6,428,000   | -   | -  | 5,137,806                               | 11,565,806                  |
| Loans and notes receivable (net).....                        | 1,028,319,000   | 30,173,000  | 5,099,520                                | 457,540,787                             | 1,521,132,307               |
| Other assets.....  | -   | 15,531,000  | -  | 26,718                                  | 15,557,718                  |
| <b>Total restricted and noncurrent assets.....</b>           | <b>1,034,747,000</b>  | <b>350,866,000</b>  | <b>27,036,560</b>                        | <b>509,695,532</b>                      | <b>1,922,345,092</b>        |
| <b>Capital Assets:</b>                                       |   |   |  |   |                             |
| Land.....  | -   | 14,804,000  | 2,834,367                                | 172,561                                 | 17,810,928                  |
| Construction in process.....                                 | -   | -   | 640,729                                  | 12,157                                  | 652,886                     |
| Building and leasehold improvements.....                     | 1,351,000   | 297,858,000   | 88,993,971                               | 13,432,272                              | 401,635,243                 |
| Equipment, furniture and fixtures.....                       | 4,414,000   | 87,356,000  | 5,383,993                                | 3,409,283                               | 100,563,276                 |
| Infrastructure.....  | -   | -   | 16,213,062                               | -                                       | 16,213,062                  |
| Accumulated depreciation.....                                | (2,901,000)   | (178,858,000)   | (68,787,958)                             | (10,180,318)                            | (260,727,276)               |
| <b>Total capital assets, net of depreciation.....</b>        | <b>2,864,000</b>  | <b>221,160,000</b>  | <b>45,278,164</b>                        | <b>6,845,955</b>                        | <b>276,148,119</b>          |
| <b>Total assets.....</b>                                     | <b>1,431,946,000</b>  | <b>714,671,000</b>  | <b>91,036,984</b>                        | <b>642,781,408</b>                      | <b>2,880,435,392</b>        |
| <b>LIABILITIES</b>   |   |   |  |   |                             |
| <b>Current Liabilities:</b>                                  |   |   |  |   |                             |
| Accounts payable.....  | 3,103,000   | 8,127,000   | 5,718,184                                | 1,014,944                               | 17,963,128                  |
| Accrued salaries and benefits.....                           | -   | 20,154,000  | -  | 1,121,378                               | 21,275,378                  |
| Accrued interest payable.....                                | -   | -   | -  | 265,734                                 | 265,734                     |
| Bond interest payable.....                                   | 1,211,000   | -   | -  | 1,741,117                               | 2,952,117                   |
| Deferred revenue.....  | 2,743,000   | 25,207,000  | 4,102,417                                | 177,572                                 | 32,229,989                  |
| Accrued arbitrage rebate.....                                | 1,260,000   | -   | -  | 254,889                                 | 1,514,889                   |
| Current portion - bonds, notes and leases payable.....       | 40,935,000  | 2,633,000   | 1,118,874                                | 87,496,813                              | 132,183,687                 |
| Due to primary government.....                               | -   | -   | -  | 8,231,711                               | 8,231,711                   |
| Escrowed cash deposits.....                                  | -   | -   | -  | 175,521                                 | 175,521                     |
| Other current liabilities.....                               | -   | 854,000   | -  | 10,160,328                              | 11,014,328                  |
| <b>Total current liabilities.....</b>                        | <b>49,252,000</b>   | <b>56,975,000</b>   | <b>10,939,475</b>                        | <b>110,640,007</b>                      | <b>227,806,482</b>          |
| <b>Restricted and Non-Current Liabilities:</b>               |   |   |  |   |                             |
| Bonds, notes and leases payable.....                         | 1,291,258,000   | 179,978,000   | 18,880,187                               | 385,728,846                             | 1,875,845,033               |
| Accounts payable and accrued liabilities.....                | -   | -   | 1,337,941                                | -                                       | 1,337,941                   |
| Accrued arbitrage rebate.....                                | 11,747,000  | -   | -  | 796,626                                 | 12,543,626                  |
| Other liabilities.....                                       | -   | 15,933,000  | 4,662,117                                | 30,465                                  | 20,625,582                  |
| Advances from primary government.....                        | -   | -   | -  | 1,921,695                               | 1,921,695                   |
| <b>Total liabilities payable from restricted assets.....</b> | <b>1,303,005,000</b>  | <b>195,911,000</b>  | <b>24,880,245</b>                        | <b>388,477,632</b>                      | <b>1,912,273,877</b>        |
| <b>Total liabilities.....</b>                                | <b>1,352,257,000</b>  | <b>252,886,000</b>  | <b>35,819,720</b>                        | <b>499,117,639</b>                      | <b>2,140,080,359</b>        |
| <b>NET ASSETS</b>  |   |   |  |   |                             |
| Invested in capital assets, (net of related debt).....       | 2,864,000   | 116,995,000   | 27,456,037                               | 6,753,336                               | 154,068,373                 |
| Restricted.....  | 48,681,000  | 249,629,000   | 11,244,596                               | 94,672,225                              | 404,226,821                 |
| Unrestricted - designated.....                               | 28,144,000  | -   | -  | 30,000                                  | 28,174,000                  |
| Unrestricted.....  | -   | 95,161,000  | 16,516,631                               | 42,208,208                              | 153,885,839                 |
| <b>Total net assets.....</b>                                 | <b>\$ 79,689,000</b>  | <b>\$ 461,785,000</b>   | <b>\$ 55,217,264</b>                     | <b>\$ 143,663,769</b>                   | <b>\$ 740,355,033</b>       |

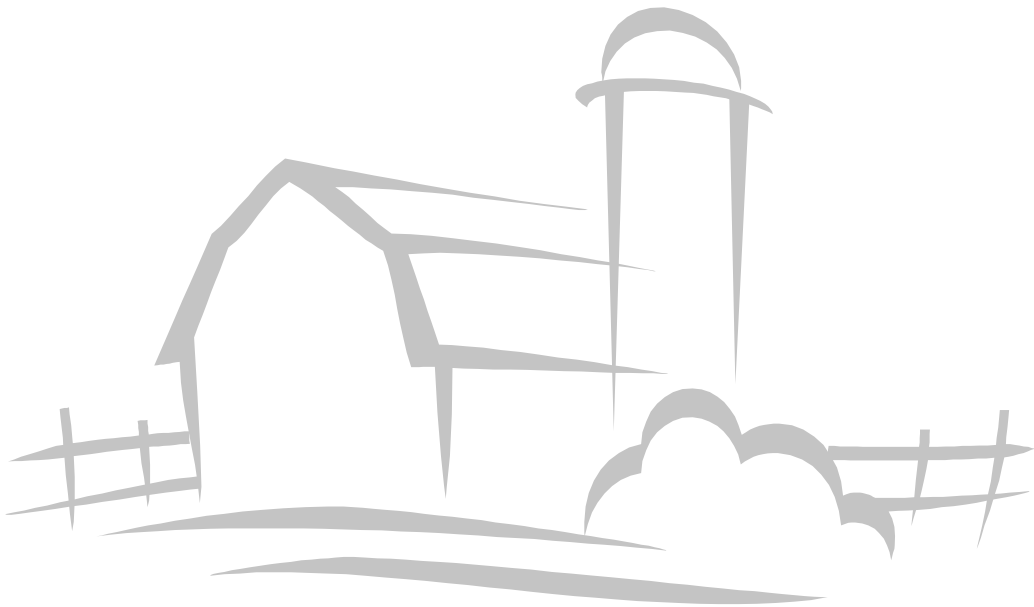
The accompanying notes are an integral part of the financial statements.

**STATE OF VERMONT  
STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2003**

| <u>Function/Program</u>                     | <u>Program Revenues</u> |                                 |   | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets</u> |   |
|---|-------------------------|---------------------------------|---|--|---|
|   | <u>Expenses</u>         | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> |  | <u>Capital<br/>Grants and<br/>Contributions</u> |
| Vermont Student Assistance Corporation..... | \$ 93,829,000           | \$ 57,775,000                   | \$ 41,700,000                                     | \$ -   | \$ 5,646,000                                    |
| University of Vermont.....                  | 379,503,000             | 182,705,000                     | 182,640,000                                       | 11,475,000   | (2,683,000)                                     |
| Vermont State Colleges.....                 | 106,498,224             | 58,679,187                      | 45,488,379  | 874,755  | (1,455,903)                                     |
| Total nonmajor component units.....         | <u>61,389,984</u>       | <u>37,123,566</u>               | <u>16,069,747</u>                                 | <u>-</u>   | <u>(8,196,671)</u>                              |
| Total component units.....                  | <u>\$ 641,220,208</u>   | <u>\$ 336,282,753</u>           | <u>\$ 285,898,126</u>                             | <u>\$ 12,349,755</u>   | <u>(6,689,574)</u>                              |
| General Revenues:                           |                         |                                 |   |  |   |
|   |                         |                                 |   |  | 11,088,000                                      |
|   |                         |                                 |   |  | 27,195,488                                      |
|   |                         |                                 |   |  | 62,323  |
|   |                         |                                 |   |  | <u>38,345,811</u>                               |
| Extraordinary items:                        |                         |                                 |   |  |   |
|   |                         |                                 |   |  | 7,500,000                                       |
|   |                         |                                 |   |  | (755,815)                                       |
|   |                         |                                 |   |  | <u>6,744,185</u>                                |
|   |                         |                                 |   |  | 38,400,422                                      |
|   |                         |                                 |   |  | <u>701,954,611</u>                              |
|   |                         |                                 |   |  | <u>\$ 740,355,033</u>                           |

The accompanying notes are an integral part of the financial statements.

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*Vermont*



**State of Vermont  
Notes To The Financial Statements  
Fiscal Year Ended June 30, 2003**

|         | <u>INDEX</u>   | <u>Page No.</u> |
|---------|--|-----------------|
| Note 1  | Reporting Entity   | 64              |
| Note 2  | Cash, Cash Equivalents, and Investments                      | 74              |
| Note 3  | Not Utilized   | -               |
| Note 4  | Capital Assets   | 77              |
| Note 5  | Retirement Plans   | 78              |
| Note 6  | Restricted Net Assets - Discretely Presented Component Units | 84              |
| Note 7  | Lease Commitments  | 84              |
| Note 8  | General Obligation Bonds and Notes Payable                   | 85              |
| Note 9  | Prior Years' Bond Refundings                                 | 88              |
| Note 10 | Accounting Method Changes and Fund Equity Restatements       | 88              |
| Note 11 | Segment Information for Enterprise Funds                     | 89              |
| Note 12 | Contingent and Limited Liabilities                           | 90              |
| Note 13 | Litigation   | 91              |
| Note 14 | Budget Stabilization Reserves                                | 91              |
| Note 15 | Joint Venture  | 91              |
| Note 16 | Risk Management  | 91              |
| Note 17 | Deficit Fund Balances  | 94              |
| Note 18 | Interfund Balances   | 96              |
| Note 19 | Changes in Long-Term Liabilities                             | 99              |
| Note 20 | Subsequent Events  | 100             |

**STATE OF VERMONT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2003**

**Note 1. Summary of Significant Accounting Policies**

The accompanying financial statements of the State of Vermont have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Newly implemented in these statements are the requirements of GASB Technical Bulletin 2003-1-“Requirements for Derivatives Not Reported At Fair Value On The Statement Of Net Assets.” Vermont reports its derivatives at fair value in its financial statements.

The accompanying financial statements present the financial position of the State, the results of operations of the State and the various funds and fund types, and the cash flows of the various proprietary funds. The financial statements are presented as of and for the period ending June 30, 2003.

**A. Reporting Entity**

The financial statements include the various agencies, boards, commissions, public trusts, and authorities of the State as well as legally separate entities over which the State’s executive, legislative, and judicial branches exercise oversight responsibility. Oversight responsibility as defined by GASB includes the following considerations:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

In addition, the following criteria were considered during the evaluation of the legally separate entities for inclusion in the CAFR as Component Units:

The scope of public services as to whether its activity benefits the State or its citizens, and whether the activity is conducted within the geographic boundaries of Vermont and is generally available to Vermont residents.

The existence of any special relationships regardless of whether the government exercises oversight responsibility that would cause the State’s financial statements to be misleading or incomplete if the entity’s financial activity were to be omitted.

Entities that may meet only one of the above criteria for inclusion in this report have not been included.

As required by generally accepted accounting principles, these financial statements present the primary government and component units of the State of Vermont.

**COMPONENT UNITS**

Component Units are entities that are legally separate from the State, but which are either financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State’s financial statements to be misleading or incomplete. Their activity may be “blended” into the activity of the primary government or may be reported separately. If they are reported separately, they are called “discretely presented component units.” Vermont does not report any blended component units in this CAFR but does report discretely presented component units that may report blended component units in their financial statements (See the Vermont Municipal Bond Bank). Component Unit’s designation as either “major” or “non-major” has been determined by applying the criteria of GASB Statement No. 34. See Section C – Fund Financial Statements – for definitions of major and non-major funds. Additional information as well as separately issued financial reports may be obtained by contacting the individual entity desired at the address given in the following text.

The Component Units columns of the government-wide financial statements report the financial results of the following entities:

## Major Component Units

*Vermont Student Assistance Corporation (VSAC)* – VSAC was established by the general assembly to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. For further information, contact their administrative offices at the Champlain Mill, P.O. Box 2000, Winooski, Vermont 05404-2601

*University Of Vermont (UVM)* - The University of Vermont's financial report includes both the university and the State Agricultural College. Additional information may be obtained by contacting the university's administrative offices in Burlington, Vermont.

*Vermont State College System (VSC)* – The Vermont State College System's annual report includes the financial activity for the following organizations:

- System Offices and Services
- Community College of Vermont
- Castleton State College
- Johnson State College
- Lyndon State College
- Vermont Technical College
- Vermont Interactive Television
- Practical Nursing Program
- Vermont Manufacturing Extension Center

Additional information about the system itself or about any of the individual organizations included in the system may be obtained by contacting the Office of the Chancellor, Vermont State Colleges, Post Office Box 359, Waterbury, Vermont 05676.

## Non-Major Component Units

*Vermont Educational and Health Buildings Financing Agency (VEHBFA)* – VEHBFA is a non-profit entity which finances or assists in the financing of projects for eligible educational or health related entities. It has a December 31 (annual) year-end and issues audited financial statements under separate cover. For additional information, they may be contacted at 133 State Street, Montpelier, Vermont 05633.

*Vermont Housing and Conservation Board (VHCB)* – The Legislature created and charged this non-profit organization with two goals: Create affordable housing for Vermont residents; and conserve and protect Vermont's agricultural lands, historic properties, important natural areas, and recreational lands. VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 149 Main Street, Montpelier, Vermont 05602.

*Vermont Economic Development Authority (VEDA)* – VEDA, a tax exempt entity, was created by the Vermont Legislature for the purpose of promoting economic prosperity in the State by directly financing eligible businesses and projects including manufacturing, agricultural, and travel and tourism enterprises; and by operating programs which provide eligible borrowers with access to capital.

VEDA also administers the State Infrastructure Bank (SIB) and the Drinking Water State Revolving Loan Fund – Private Loans. These two funds are administered for the benefit of the State and are consolidated and reported in VEDA's agency fund. Audited financial statements and additional information may be obtained by contacting them at 56 East State Street, Montpelier, Vermont 05602.

*Vermont Municipal Bond Bank (VMBB)* – The Vermont Legislature established the VMBB for the express purposes of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for the financing of public improvements or other public purposes. VMBB is authorized to carry out these charges by borrowing money or by issuing its own bonds and notes to obtain funds which are then utilized to purchase bonds and notes issued by local governmental entities. It has an annual fiscal year (December 31) and issues audited financial statements under separate cover.

VMBB also administers the *Special Environmental Revolving Fund* in accordance with 24 V.S.A. 4753(b). This fund, which has a June 30 year-end and issues its own audited financial statements, was created by the General Assembly for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. For financial reporting purposes, its financial statements have been consolidated with the State's Federal Revenue Fund financial statements in this CAFR. Further information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 133 State Street, Montpelier, Vermont 05633.

*Vermont Center For Geographic Information (VCGI)* – The Vermont Legislature established VCGI and charged it with creating a comprehensive strategy for the development and use of a geographic information system. Audited financial statements or additional information may be obtained by contacting them at 58 South Main Street, Waterbury, Vermont 05671.

*Vermont Sustainable Jobs Fund, Inc.* – The Vermont Legislature established a jobs program and directed VEDA to set up a non-profit 503(c)(3) corporation to implement the program and to establish policies and procedures in order to fulfill the goals of the jobs program as listed in 10 V.S.A. 326(a). Audited financial statements and additional information may be obtained by contacting them at 56 East State Street, Montpelier, Vermont 05602.

*Vermont Transportation Authority (VTA)* – The Vermont Legislature specifically authorized the creation of VTA pursuant to the acquisition, operation, and support of an authorized transportation facility as defined in 29 V.S.A. 701. Its only current activity is managing the commuter rail line running from Shelburne to Burlington, Vermont whose operations were discontinued on February 28, 2003. Audited financial statements and additional information may be obtained from VTA at 1 Main Street, Suite 101, Burlington, Vermont 05401.

*Vermont Veterans' Home* – The Vermont Veterans' Home was originally chartered in 1884 by the Vermont Legislature and incorporated on November 24, 1884. A Board of Trustees appointed by the Governor oversees the operations of the home. The home issues its own audited financial statements under separate cover. Additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

*Vermont Rehabilitation Corporation* – The Vermont Rehabilitation Corporation is a non-profit quasi-public corporation that was incorporated in 1935 in accordance with 10 V.S.A. 272-277. Its main purpose is to provide a limited source of loan funds to family farmers or prospective family farmers under terms and conditions which will reduce their investment costs to an extent that offers them a reasonable chance to succeed. Additional information may be obtained by contacting the Vermont State Treasurer at 133 State Street, Montpelier, Vermont 05633-6200.

#### JOINT VENTURES

A joint venture is a legal entity or other contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. The following entities in which the State has been participating have been classified as joint ventures. The financial activities of these organizations have not been included in the State's financial statements; however, see Note 15 for a summary of the financial activity of the Tri-State Lotto Commission.

Connecticut River Atlantic Salmon Committee (10 V.S.A. 4654)  
Connecticut River Valley Flood Control Commission (10 V.S.A. 1153)  
New England Board of Higher Education (16 V.S.A. 2692)  
New England Interstate Water Pollution Control Commission (10 V.S.A. 1333)  
Northeastern Forest Fire Protection Commission (10 V.S.A. 2503)  
Tri-State Lotto Commission (31 V.S.A. 673)  
Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

#### RELATED ORGANIZATIONS

Related organizations are separate legal entities for which the primary government is accountable only because it appoints a voting majority of the board but for which it is not financially accountable. The following entities have been classified as related organizations but their financial activity has not been included in the State's financial statements.

Vermont State Housing Authority (24 V.S.A. 4005)  
Vermont Housing Finance Agency (10 V.S.A. 611)

#### EXCLUDED ORGANIZATIONS

The following entities have been determined not to be part of the reporting entity after applying the criteria of GASB Statement No. 14 "The Financial Reporting Entity."

Vermont Council On The Humanities  
Vermont Council On The Arts  
Vermont Historical Society  
Vermont Public Power Supply Authority

These organizations have not been included in the reporting entity because they are legally separate entities and the voting majority of their governing boards are not appointed by the State. They are not fiscally dependent on the State's primary government and exclusion from the reporting entity would not render Vermont's financial statements incomplete or misleading.

## **B. Government-wide Financial Statements**

Vermont's Government-wide Financial Statements (the Statement of Net Assets and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units except fiduciary activity. Fiduciary fund activity has not been included in these entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of interfund activity has also been removed from these government-wide statements. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities' sources of revenues are normally taxes and inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources by management are not presented as restricted net assets. When both restricted and non-restricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

## **C. Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and major component units. Major governmental funds, major proprietary funds, and major component units are reported in individual columns in their respective fund financial statements. Non-major funds are consolidated and reported in a single column. The single test for classifying a fund as either major or non-major consists of applying the following two steps:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc) for all funds in that category or type (that is total governmental or total enterprise), **and**
- b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition to the above major fund criteria, any other governmental or enterprise fund that the government officials believe is particularly important to financial statement users (i.e. because of public interest or for consistency) may be reported as a major fund.

## **D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Government-wide Financial Statements* – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

*Governmental Fund Financial Statements* – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of year-end. Principle revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. See fiscal year 2003 change in special consideration for personal income tax revenue recognition under the "Receivables" section of this footnote.

Expenditures generally are recorded when a liability is due and payable. See the "Tax Refunds" section of this footnote for the special consideration afforded the recognition of personal income tax refunds in this report. Modifications to the modified accrual basis of accounting include:

Employees vested annual, personal, and compensated leave time is recorded as expenditures when utilized. The amount of accumulated leave unpaid at the end of the fiscal year has been reported only in the government-wide financial statements and does not include any accruals for the State's share of any taxes due when the expenditures are actually paid. See the "Compensated Absences" section of this footnote for additional information.

Interest on general long-term debt is recognized when due to be paid.

Debt service expenditures and claims and judgments are recorded only when payment is due to be paid.

*Proprietary Funds, Fiduciary Funds, and Discretely Presented Proprietary Fund Type Component Units* – The financial statements presented for these types of funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred. The State's proprietary funds have elected not to apply standards issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation(s). Revenues and expenses not meeting this definition are categorized as non-operating revenues and expenses.

*University of Vermont (UVM) and the Vermont State College System (VSC)* – These entities account for their activity using the economic resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles set forth for public colleges and universities.

## **E. Fund Accounting**

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. A fund is a separate accounting entity with a self-balancing set of accounts. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following governmental, proprietary and fiduciary funds:

### **GOVERNMENTAL FUNDS**

*General Fund* – The General Assembly has established the General Fund as the basic operating fund of the State. As such, the General Fund is used to finance and to account for all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

*Special Revenue Funds* - These funds are used to account for revenues specifically earmarked to finance only particular or restricted programs and activities and include the following:

*Transportation Fund* – This fund is used primarily for preservation, maintenance, and improvements to the State's transportation infrastructure. This infrastructure includes highways, bridges, railroads, airports, public transportation, and other related activities. The fund is also used for maintenance and staffing of highway rest areas, construction of transportation capital facilities, and to provide funding for transportation related debt service requirements. The principle sources of revenue in this fund are motor fuel taxes, motor vehicle purchase and use tax, motor vehicle license and registration fees, traffic ticket revenue, other statutorily specified revenues, as well as reimbursements from the federal government for federal aid transportation projects.

*Education Fund* – This fund was established by the Vermont Legislature to equalize statewide funding requirements. Expenditures authorized for funding are codified in 16 V.S.A. 4025(b) and may include only legitimate items of current education expense. Sources of funding are described in 16 V.S.A. 4025(a). A stabilization reserve for the Education Fund has also been established in accordance with 16 V.S.A. 4026.

*Fish and Wildlife Fund* – This fund's revenue is restricted by statute and can only be utilized for fish and wildlife purposes. Principle sources of revenue include license fees and federal grants.

*Federal Revenue Fund* – All federal grant receipts are recorded in this fund except for those federal funds specifically designated for transportation or fish and wildlife purposes. Federal grants of these latter two types are recorded in the State's Transportation Fund or Fish and Wildlife Fund respectively.

*Special Fund* – This fund consolidates many individual special revenue funds that account for proceeds or specific revenues not categorized above that are legally restricted to expenditures for specific purposes. These purposes cross the entire gamut of state government activities.

*Capital Projects Funds* – These funds, consisting of the General Bond Fund and the Transportation Bond Fund, account for capital improvement expenditures. These appropriations are primarily funded by the issuance of State capital bonds. These capital expenditures may be for the State directly or for outside organizations such as the Vermont State College System, municipalities, etc.

*Permanent Funds* – These funds report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or citizenry, such as higher education, cemetery care, monument preservation, etc. In previous years, these funds were reported as non-expendable trust funds.

### PROPRIETARY FUNDS

These funds account for those activities for which the intent of management is to recover the cost of providing goods or services to the general public or other departments of government primarily through user charges; or where prudent financial management dictates that periodic determinations of results of operations are appropriate. These funds include the following types:

*Enterprise Funds* – These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. The Unemployment Trust Fund, previously reported as an expendable trust fund, is now reported as an enterprise fund as required by GASB Statement No.34.

*Internal Service Funds* – These funds are used to account for the financing of goods and services provided by one state department to other state agencies, departments, or intergovernmental units. Their objective is not to make a profit but rather to recover the total cost of providing these goods and services by charging users of their services and products. The State added one new Internal Service Fund – Financial and Human Resource Information Fund – in FY2003. In the government-wide financial statements, Internal Service Funds are reported within the governmental activities.

### FIDUCIARY FUNDS

These funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These funds include the following:

*Pension Trust Funds* -- These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement System of Vermont, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, and the State's Single Deposit Investment Account.

*Private Purpose Trust Fund* – The State reports only one fund under this category, the *Unclaimed Property Fund* managed by the State Treasurer's Office. This fund accounts for all abandoned property in the State that is required to be reported and sent to the State for safekeeping. The State Treasurer is required to return this property to its rightful owner if he/she can be determined. If no one claims the property after a prescribed amount of time has passed, the Treasurer is required to transfer it to the General Fund where the Legislature will appropriate it. However, if a valid claim is submitted after the Legislature has appropriated this property, the State is still required to return this property or its equivalent value to the rightful owner.

*Agency Funds* – These funds report assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding, etc.

## BUDGETARY PROCESS

Vermont statutes require the head of every State department, board, and commission and any officer or individual responsible for any activity for which funds are appropriated by the General Assembly to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by the November 1 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the General Assembly, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The General Assembly then enacts into law an appropriations act that must be approved by the Governor before any expenditures can be made. In recent years in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the General Assembly to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis usually at the program level. The Governor may amend appropriations within limits established by statute. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

## CASH AND CASH EQUIVALENTS

Cash balances for most funds are deposited with the State Treasurer, except for the Pension Trust Funds, Capital Projects Funds, and the Single Deposit Investment Account Fund. Cash balances deposited with the State Treasurer are pooled together and amounts that are not immediately required are invested in short-term investments.

Income earned by these short-term investments is allocated to those funds authorized to receive it while any remaining earnings are deposited in the General Fund.

Cash and cash equivalents as reported in the financial statements include bank accounts, imprest cash, short-term investments with an original maturity of 3 months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

## RECEIVABLES

Receivables in the government-wide financial statements represent amounts due to the State at June 30 that will be collected at some time in the future. They consist primarily of accrued taxes and federal grants receivable.

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes (see change in personal income tax revenue recognition criteria below), federal grants receivable, and notes receivable from component units. Revenues accrued in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from component units that will be collected by the State within sixty days. Amounts estimated to be collected after the sixty-day period will be recorded as deferred revenues. Prior to fiscal year 2003 personal income tax accrued revenue recognition included receivables that are assessed or estimated to be owed by the taxpayer as of June 30 that will be received by the State during the following ten months. Beginning with fiscal year 2003, the State changed its personal income tax accrued revenue recognition policy to only recognize personal income tax accrued revenues in the amount to be collected within the sixty-day period after year-end. These revenues are accrued in accordance with measurable and available criteria under the modified accrual basis of accounting. Federal receivables are amounts due from the federal government to reimburse the State for expenditures incurred pursuant to federally funded programs. Notes receivable in the General Fund consist primarily of advances in the form of Vermont Economic Development Authority notes purchased by the State. See Note 12 – Contingent Liabilities for further information. No allowances for uncollectible amounts have been recognized in these notes receivable.

The "Investments Sold" receivable balance on the Statement of Fiduciary Net Assets – Pension Trust Funds represent monies due to the respective retirement funds for investments sold or matured prior to June 30, 2003, but for which the receipts were received subsequent to June 30, 2003.

The "Other" receivable balance in the Vermont Municipal Employees' Retirement Fund represents the remaining cash balance due from several municipal entities that recently joined this plan. Please see Note 5A – Retirement Plan Descriptions for further information regarding these new entities.



## INVENTORIES

Inventories of materials and supplies reported in the governmental funds are recorded as expenditures when purchased. Inventories reported in the proprietary funds are generally valued at the lower of average cost or market. However, inventories reported in the Federal Surplus Property Fund (an enterprise fund) are reported at the federal acquisition cost.

## CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include property, plant, equipment, and infrastructure assets are recorded in the Government-wide Statement of Net Assets at historical cost if available or, if donated or the actual cost is not known, at the estimated fair market value at the date the State acquired them. Interest incurred on debt issued for construction of these capital assets is not capitalized.

Vermont defines a Capital Asset as a physical resource that costs at least \$5,000 and provides a future economic benefit for a minimum of 2 years. This includes capital leases and buildings that are not considered to be part of an infrastructure asset. All land regardless of cost, is capitalized and is not depreciated.

Infrastructure assets are defined as long-lived economic resources that are normally stationary in nature; utilized primarily by the general public as compared to state employees; cost at least \$50,000 and provide future economic benefit for at least 3 years. Normally, they can be preserved for a significantly greater number of years than most capital assets. They are generally much greater in value and have a longer economic life than capital assets.

Capital assets are depreciated over their useful lives using the straight-line mid-month depreciation method. Useful lives for buildings are 20 to 50 years and equipment are 3 to 24 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes 4 and 7 respectively.

Capital assets in the proprietary funds are capitalized at cost when acquired. Depreciation is calculated and recorded using the straight-line method with estimated useful lives being the same as those for the governmental capital assets.

When a capital asset is disposed of, its cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements.

## DEFERRED REVENUE

Revenues in the government-wide financial statements and the proprietary fund financial statements are deferred if cash has been received prior to being earned. In governmental fund statements deferred revenues are recognized when revenues are unearned or unavailable.

## PAYABLES

The accounts payable balances contained in the financial statements consist of operating liabilities that were incurred and payment was due prior to year-end (usually June 30) and where payment was actually made subsequent to year-end. When paying its liabilities, it is the policy of the State to apply restricted resources first to situations where either restricted or unrestricted net assets may be used.

The "payable for investments purchased" balance for the Pension Trust Funds represents amounts due for securities purchased prior to June 30, 2003, which were paid subsequent to June 30, 2003.

## ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned by employees as of June 30, 2003. Retainage payable consists of portions of progress payment amounts due to contractors that have been withheld and which will be paid by the State to the contractors upon final completion and acceptance of the contracted item or service.

## TAX REFUNDS

Tax refunds primarily represent amounts owed by the State to taxpayers because of overpayment of their 2002 calendar year and first and second quarter 2003 calendar year personal income tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount reported as tax refunds payable at June 30, 2003 in the governmental funds statements is comprised of tax refunds for filed

tax returns due and payable at June 30, 2003. The amount reported as tax refunds payable at June 30, 2003 in the government-wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2003 tax liability as well as overpayments for calendar year 2002 and prior years' tax liabilities that have not been paid out as of June 30, 2003.

#### ENCUMBRANCES

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. When the terms of the purchase order or contract have been fulfilled and payment to the contracting party is due, the encumbrance is liquidated and the liability and expenditure are recorded. Un-liquidated encumbrances remaining at fiscal year-end are reported in the Reserved For Encumbrances account as a component of fund equity for the governmental fund types.

#### FUND BALANCES

Fund balances for governmental funds are either reserved or unreserved. Reserved fund balances reflect either (1) assets which, by their nature, are not available for appropriation; (2) funds legally separated for a specific use such as "reserved for encumbrances;" or (3) funds segregated by legal restrictions.

Certain other reservations of the Governmental Funds' fund balances are described below.

*Budget Stabilization Reserve* – These reserves are established in the General, Transportation, and Education funds. They were created to reduce the effects of annual variations in state revenues by reserving certain surpluses of revenue. See Note 14 for a more complete disclosure of these reserves as it pertains to the current fiscal year.

The following reservations apply to the General Fund:

*Reserve For Debt Service* – During fiscal year 1993, the State initiated a lawsuit to recover costs associated with asbestos removal. A settlement agreement between the contractor and the State was reached which resulted in net proceeds of \$1,734,543 being credited to and reserved in the General Fund to meet future debt obligations associated with issuance of bonds relating to asbestos removal. The reserved amount is reduced annually through fiscal year 2009 in proportion to the repayment schedule of the bonds issued to refinance the asbestos removal. The remaining reserved balance at June 30 2003 is \$50,197.

*Reserve For Human Caseload Management* – The reserve for human caseload management, established pursuant to 32 V.S.A. Section 308b(a) was created to be available for appropriation to meet caseload-related needs at the Agency of Human Services. The Secretary of Administration may transfer to this reserve any general fund unexpended appropriations directly attributable to Aid To Needy Families With Children (ANFC) caseload reductions and the effective management of related federal receipts.

#### COMPENSATED ABSENCES

Compensated absences include accumulated unpaid vacation, compensatory time, and personal leave credits. Classified State employees may accrue vacation leave based on the number of years employed up to a maximum rate of 24 days annually and may not accumulate more than a maximum of 45 days (360 hours) at any one time. This liability is expected to be liquidated in future periods as either salary payments or cash payments upon termination of employment. Compensatory time and personal leave time accumulates as earned by the employees but must be taken within an accrual year or forfeited.

Liabilities for compensated absences are recorded in the fund where the employees are assigned. The amounts are calculated based on an employee's pay rate in effect on June 30, 2003. Additional information including changes in balances may be found in Note 19 – Changes In Long-term Liabilities.

Employees earn sick leave credits based on the number of years employed with a maximum accrual rate of 21 days per fiscal year. Sick leave may only be liquidated if and when sickness or injury is incurred. Additionally, if employment is terminated, any sick leave that the individual may have accrued is forfeited without any payout; therefore, it is not an accrual liability to the State. There is no limit on the amount of sick leave an employee may accumulate.

## BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS

In the government-wide financial statements, bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issued are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

## INTERFUND TRANSACTIONS

*INTERFUND LOANS* – Short-term loans between funds outstanding at year-end for such things as cash overdrafts are recorded as Interfund Receivables/Payables. Advances To/From Other Funds represent long-term interfund loans receivable and payable.

*REIMBURSEMENTS* – Reimbursements result when one fund makes an expenditure for a second fund when that expenditure or expense is properly applicable to the second fund. Reimbursement transactions reduce expenditures in the reimbursed fund and increase expenditures/expenses in the reimbursing fund.

*QUASI-EXTERNAL TRANSACTIONS* –These transactions occur between two government funds that would be accounted for as revenue and expenditures if they occurred between a government entity and a private sector entity.

*RESIDUAL EQUITY TRANSFERS* – These transfers are defined as non-recurring and non-routine transfers of equity between two funds.

*OPERATING TRANSFERS* – These transfers encompass all types of transfers, except for the residual equity transfers, and are primarily routine transfers of appropriation resources between funds. Operating transfers are not revenue, expenditures, or expenses, and are classified as “Other Funding Sources (Uses)” in the operating statements of the governmental funds and in a separate subsection before net income in the proprietary funds.

## PREPAID EXPENSES

In governmental funds, all purchases are recorded as expenditures when paid. In the proprietary and fiduciary funds, certain payments reflect costs applicable to future accounting periods and as such, are recorded as prepaid expenses. These prepaid items will be expensed as they are liquidated.

## USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, that affect disclosure of contingent assets and liabilities as of the date of the financial statements, and that affect the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates. During fiscal year 2003, the State changed from using 4 months of subsequent payments for prior year Medicaid liabilities to an accounting estimate of the total liability.

**Note 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS:**

The State pools substantially all cash and investments of governmental, proprietary, and agency funds, except those which are maintained separately in accordance with legal restrictions. Separate cash and investment accounts are generally maintained for pension funds and capital projects funds. Each fund's equity share of the total pooled cash and investments and restricted assets are included on the accompanying balance sheets.

**Schedule of Deposit and Investment Disclosures**

**June 30, 2003**

**Primary Government and Component Units**

|                           |                                |
|---------------------------|--------------------------------|
| Cash and Cash Equivalents | \$ 865,300,911                 |
| Investments               | 2,838,404,409                  |
| Restricted Cash           | <u>14,776,659</u>              |
| <b>Total</b>              | <b>\$ <u>3,718,481,979</u></b> |

Deposits, Investments, and Reconciling Items

|                                      |                                |
|--------------------------------------|--------------------------------|
| Carrying Value of Deposits           | \$ 461,208,672                 |
| Carrying Value of Investments        | 2,995,003,270                  |
| Cash on Hand                         | 613,604                        |
| U.S. Treasury - Unemployment Account | <u>261,656,433</u>             |
| <b>Total</b>                         | <b>\$ <u>3,718,481,979</u></b> |

**DEPOSITS:**

The following statutory requirement and Treasury Department policy have been implemented to minimize risk associated with deposits. 32 V.S.A. Sec. 431 establishes the requirements the State Treasurer must adhere to when depositing public monies. The statute sets parameters regarding the amount of funds that may be on deposit with any particular institution at any one time. Although not statutorily required, the State Treasurer requires State cash deposits to be collateralized with either United States Treasury securities or Vermont Municipal securities or a combination of same with a current market value equal to at least 102% of the amount of the deposit.

Deposits are classified as to credit risk by the three categories described below:

- Category 1 Fully insured or collateralized with securities held by the State or its agent in the State's name.
- Category 2 Collateralized with securities held by the pledging institution's trust department or its agent in the State's name.
- Category 3 Uncollateralized.

The U.S. Treasury - Unemployment Account balance of \$261,656,433 at June 30, 2003 is on deposit with the U.S. Treasury and is not categorized.

At June 30, 2003, the State's deposits, listed by credit risk category, are shown in the following schedule:

|                    | Categories                 |                             |                              | Bank<br>Balance              | Reported<br>Amount           |
|--------------------|----------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|
|                    | 1                          | 2                           | 3                            |                              |                              |
| Primary Government | \$ 5,470,581               | \$ 11,932,936               | \$ 134,954,581               | \$ 152,358,098               | \$ 130,437,401               |
| Component Units    | <u>2,448,768</u>           | <u>20,150,788</u>           | <u>294,488,637</u>           | <u>317,088,193</u>           | <u>330,771,271</u>           |
| <b>Total</b>       | <b>\$ <u>7,919,349</u></b> | <b>\$ <u>32,083,724</u></b> | <b>\$ <u>429,443,218</u></b> | <b>\$ <u>469,446,291</u></b> | <b>\$ <u>461,208,672</u></b> |

**INVESTMENTS:**

Effective July 1, 1997, the State adopted provisions of GASB No.31, "Accounting and Reporting for Certain Investments and for External Investment Pools." GASB No.31 requires investments to be reported at fair value in the balance sheet. Effective with fiscal year 2003, the State reports any derivatives at fair value in accordance with GASB TB 2003-1, "Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets."

The disclosure of carrying (book) amounts by type of investment are classified in the following three categories of credit risk:

1. Insured, registered or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by counterparty's Trust Department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the State's name.

32 V.S.A. Section 433 defines the parameters the Treasurer must adhere to when investing State monies. Types of investments the Treasurer may utilize include obligations of the United States, its agencies and instrumentalities, and any repurchase agreements whose underlying collateral consists of such obligations; certificates of deposit issued by banks and savings and loan associations approved by the Treasurer; prime bankers' acceptances; prime commercial paper; tax exempt securities; and domestic money market funds. The boards overseeing the various pension funds have adopted their own set of investment guidelines.

At June 30, 2003 the State's investments, categorized by the credit risk categories listed above, are shown in the following schedule:

|                                  | <b>INVESTMENTS</b>      |                       |                       | Carrying<br>Amount             |
|----------------------------------|-------------------------|-----------------------|-----------------------|--------------------------------|
|                                  | 1                       | Categories<br>2       | 3                     |                                |
| <b>Primary Government</b>        |                         |                       |                       |                                |
| Stocks                           | \$ 1,277,643,853        | \$ -                  | \$ -                  | \$ 1,277,643,853               |
| U.S. Government Securities       | 390,064,442             | -                     | -                     | 390,064,442                    |
| Corporate Bonds and Notes        | 464,861,278             | -                     | -                     | 464,861,278                    |
| Other Investments                | -                       | -                     | 39,996,386            | 39,996,386                     |
| Subtotals                        | 2,132,569,573           | 0                     | 39,996,386            | 2,172,565,959                  |
| Not Categorized:                 |                         |                       |                       |                                |
| Real Estate/Venture Capital      | -                       | -                     | -                     | 199,459,231                    |
| Mutual Funds                     | -                       | -                     | -                     | 132,908,862                    |
| Lottery Annuity                  | -                       | -                     | -                     | 805,863                        |
| Mortgages                        | -                       | -                     | -                     | 15,410                         |
| Totals - Primary Government      | <u>\$ 2,132,569,573</u> | <u>\$ 0</u>           | <u>\$ 39,996,386</u>  | <u>\$ 2,505,755,325</u>        |
| <b>Component Units</b>           |                         |                       |                       |                                |
| U.S. Government Obligations      | \$ 52,424,994           | \$ 10,379,000         | \$ 12,876,167         | \$ 75,680,161                  |
| Corporate Bonds                  | 5,184,312               | 3,681,000             | -                     | 8,865,312                      |
| Stocks                           | 38,990,848              | -                     | -                     | 38,990,848                     |
| Other                            | 8,847,877               | 229,676,747           | 120,241,000           | 358,765,624                    |
| Subtotals                        | 105,448,031             | 243,736,747           | 133,117,167           | 482,301,945                    |
| Not Categorized:                 |                         |                       |                       |                                |
| UVM Partnerships                 | -                       | -                     | -                     | 6,946,000                      |
| Total Component Units            | <u>\$ 105,448,031</u>   | <u>\$ 243,736,747</u> | <u>\$ 133,117,167</u> | <u>489,247,945</u>             |
| <b>Totals - Reporting Entity</b> |                         |                       |                       | <b><u>\$ 2,995,003,270</u></b> |

### Securities Lending Transactions

State statutes and boards of trustees policies permit the Office of the Vermont State Treasurer to use investments of the three pension plans to enter into securities lending transactions - loans of securities to broker dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The pension plans' securities dealer, State Street Bank and Trust Company (State Street), is the agent in lending the plans' domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. At year-end the pension plans have no credit risk exposure to borrowers because the amounts the plans owe the borrowers exceed the amounts the borrowers owe the plans. The lending agent indemnified Vermont by agreeing to purchase replacement securities or to return cash collateral in the event borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay Vermont for income distributions by the securities' issuers while the securities were on loan. There were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, Vermont and the borrowers maintained the right to terminate all securities loans on demand. The cash collateral received on each loan was invested in collective investment pools with an average duration of 64 days at June 30, 2003. Because loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. On June 30, 2003, the collateral held and the market value of the securities on loan for Vermont were \$121,002,238 and \$116,594,328, respectively.

Below are the statutory references that allow the pension plans to participate in the securities lending program.

#### Statute Reference

#### Retirement Plan

3 V.S.A. Section 471(m)

Vermont State Employees' Retirement Fund

16 V.S.A. Section 1942(q)

Vermont Teachers' Retirement Fund

24 V.S.A. Section 5062(o)

Vermont Municipal Employees' Retirement Fund

**Note 3: NOT UTILIZED**

**Note 4: Capital Assets:**

Capital Assets activities for the fiscal year ended June 30, 2003 were as follows:

**Primary Government**

| Governmental Activities                      | Beginning<br>Balance  | Additions             | Deletions              | Adjustments<br>and Reclas-<br>ifications | Ending<br>Balance       |
|--|-----------------------|-----------------------|------------------------|--|-------------------------|
| Capital assets, not being depreciated:       |                       |                       |                        |  |                         |
| Land and land improvements                   | \$ 66,249,447         | \$ 311,147            | \$ -                   | \$ -                                     | \$ 66,560,594           |
| Construction in process                      | 328,775,171           | 123,098,205           | (87,873,301)           | -  | 364,000,075             |
| Works of Art                                 | 111,521               | -                     | -                      | -  | 111,521                 |
| Total capital assets, not being depreciated  | <u>395,136,139</u>    | <u>123,409,352</u>    | <u>(87,873,301)</u>    | <u>0</u>                                 | <u>430,672,190</u>      |
| Capital assets, being depreciated:           |                       |                       |                        |  |                         |
| Buildings and improvements                   | 241,516,067           | 13,164,477            | -                      | -  | 254,680,544             |
| Machinery and equipment                      | 85,790,070            | 32,295,034            | (9,449,544)            | (235,373)                                | 108,400,187             |
| Infrastructure                               | 1,013,524,508         | 71,980,704            | (5,082,045)            | -  | 1,080,423,167           |
| Total capital assets, being depreciated      | <u>1,340,830,645</u>  | <u>117,440,215</u>    | <u>(14,531,589)</u>    | <u>(235,373)</u>                         | <u>1,443,503,898</u>    |
| Less accumulated depreciation for:           |                       |                       |                        |  |                         |
| Buildings and improvements                   | (104,671,197)         | (5,964,745)           | -                      | -  | (110,635,942)           |
| Machinery and equipment                      | (52,619,363)          | (15,142,260)          | 8,793,764              | 170,901                                  | (58,796,958)            |
| Infrastructure                               | (580,770,562)         | (40,651,865)          | 5,082,045              | -  | (616,340,382)           |
| Total accumulated depreciation               | <u>(738,061,122)</u>  | <u>(61,758,870)</u>   | <u>13,875,809</u>      | <u>170,901</u>                           | <u>(785,773,282)</u>    |
| Total capital assets, being depreciated, net | <u>602,769,523</u>    | <u>55,681,345</u>     | <u>(655,780)</u>       | <u>(64,472)</u>                          | <u>657,730,616</u>      |
| Governmental activities capital assets, net  | <u>\$ 997,905,662</u> | <u>\$ 179,090,697</u> | <u>\$ (88,529,081)</u> | <u>\$ (64,472)</u>                       | <u>\$ 1,088,402,806</u> |
| Business-type Activities                     | Beginning<br>Balance  | Additions             | Deletions              | Adjustments<br>and Reclas-<br>ifications | Ending<br>Balance       |
| Capital assets, being depreciated:           |                       |                       |                        |  |                         |
| Buildings and improvements                   | \$ 41,850             | \$ -                  | \$ -                   | \$ -                                     | \$ 41,850               |
| Machinery and equipment                      | 1,004,747             | 221,896               | (84,264)               | -  | 1,142,379               |
| Total capital assets, being depreciated      | <u>1,046,597</u>      | <u>221,896</u>        | <u>(84,264)</u>        | <u>0</u>                                 | <u>1,184,229</u>        |
| Less accumulated depreciation for:           |                       |                       |                        |  |                         |
| Buildings and improvements                   | (16,616)              | (5,231)               | -                      | -  | (21,847)                |
| Machinery and equipment                      | (525,219)             | (180,006)             | 76,613                 | -  | (628,612)               |
| Total accumulated depreciation               | <u>(541,835)</u>      | <u>(185,237)</u>      | <u>76,613</u>          | <u>0</u>                                 | <u>(650,459)</u>        |
| Total capital assets, being depreciated, net | <u>504,762</u>        | <u>36,659</u>         | <u>(7,651)</u>         | <u>0</u>                                 | <u>533,770</u>          |
| Business-type activities capital assets, net | <u>\$ 504,762</u>     | <u>\$ 36,659</u>      | <u>\$ (7,651)</u>      | <u>\$ 0</u>                              | <u>\$ 533,770</u>       |

Current period depreciation expense was charged to functions of the Primary Government as follows:

Governmental Activities:

|  |                      |
|--|----------------------|
| General Government   | \$ 12,607,492        |
| Protection to Persons and Property                                   | 1,642,406            |
| Human Services   | 706,523              |
| Employment & Training  | 122,308              |
| General Education  | 12,160               |
| Natural Resources  | 1,126,186            |
| Commerce and Community Development                                   | 61,172               |
| Transportation   | 41,016,522           |
| Depreciation on Capital Assets held<br>by the Internal Service Funds | 4,464,101            |
| Total  | <u>\$ 61,758,870</u> |

Business-type Activities:

|                          |                   |
|--------------------------|-------------------|
| Liquor Control           | \$ 123,544        |
| Lottery                  | 56,927            |
| Federal Surplus Property | 4,766             |
| Total                    | <u>\$ 185,237</u> |

**Discretely Presented Component Units**

|  | Beginning<br>Balance  | Additions            | Deletions           | Adjustments<br>and Reclas-<br>sifications | Ending<br>Balance     |
|--|-----------------------|----------------------|---------------------|---|-----------------------|
| Capital assets, not being depreciated:       |                       |                      |                     |   |                       |
| Land and land improvements                   | \$ 13,177,213         | \$ 4,697,715         | \$ (64,000)         | \$ -                                      | \$ 17,810,928         |
| Construction in process                      | 1,394,558             | 1,056,639            | -                   | (1,798,311)                               | 652,886               |
| Total capital assets, not being depreciated  | <u>14,571,771</u>     | <u>5,754,354</u>     | <u>(64,000)</u>     | <u>(1,798,311)</u>                        | <u>18,463,814</u>     |
| Capital assets, being depreciated:           |                       |                      |                     |   |                       |
| Buildings and improvements                   | 379,737,410           | 21,881,275           | (366,500)           | 383,058                                   | 401,635,243           |
| Machinery and equipment                      | 94,933,071            | 11,302,783           | (5,999,303)         | 326,725                                   | 100,563,276           |
| Infrastructure                               | 16,173,670            | 39,392               | -                   | -   | 16,213,062            |
| Total capital assets, being depreciated      | <u>490,844,151</u>    | <u>33,223,450</u>    | <u>(6,365,803)</u>  | <u>709,783</u>                            | <u>518,411,581</u>    |
| Less accumulated depreciation                | <u>(250,104,012)</u>  | <u>(16,866,827)</u>  | <u>6,208,032</u>    | <u>35,531</u>                             | <u>(260,727,276)</u>  |
| Total capital assets, being depreciated, net | <u>240,740,139</u>    | <u>16,356,623</u>    | <u>(157,771)</u>    | <u>745,314</u>                            | <u>257,684,305</u>    |
| Component unit capital assets, net           | <u>\$ 255,311,910</u> | <u>\$ 22,110,977</u> | <u>\$ (221,771)</u> | <u>\$ (1,052,997)</u>                     | <u>\$ 276,148,119</u> |

**Note 5: RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS:**

**A. Retirement Plan Descriptions**

**Defined Benefit Retirement Plans**

In accordance with State Statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and two defined contribution plans. These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary fund type. There are no separate stand-alone financial statements issued for these plans.

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer public employee defined benefit retirement system which covers substantially all general state employees and State Police, except employees hired in a temporary capacity. Membership in the system is a condition of employment. The membership consists of:

- (1) general employees who did not join the non-contributory system on July 1, 1981 (Group A) with a



contribution rate of 5.1% of payroll (contributions cease upon attainment of 25 years of creditable service),

- (2) state police, law enforcement positions and airport firefighters hired after July 1, 2000 (Group C) with a contribution rate of 6.28% of payroll,
- (3) judges (Group D) with a contribution rate of 5.1% of payroll,
- (4) terminated vested members of the non-contributory system (Group E), and
- (5) all other general employees (Group F) with a contribution rate of 3.35% of payroll.

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost sharing multiple-employer public employee retirement system. It covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the state board of education. Membership in the system for those covered classes is a condition of employment. The membership is made up of:

- (1) general teachers who did not join the non-contributory system on July 1, 1981 (Group A) with a contribution rate of 5.5% of payroll (contributions cease upon attainment of 25 years of creditable service),
- (2) terminated vested members of the non-contributory system (Group B), and
- (3) all other general teachers (Group C) with a contribution rate of 3.4% of covered payroll.

The State appropriates funding for pension costs associated with the above two plans. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could elect to transfer their current memberships from a contributory to a non-contributory membership class (see Note 5 E. Single Deposit Investment Account). However, in 1990, the Legislature again made both systems contributory effective July 1, 1990 for the STRS and January 1, 1991 for the VSRS. The State's contribution to each system is based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are calculated based upon the liabilities of each system as determined by actuarial valuations. Present law provides that each system's unfunded accrued liability will be amortized over 30 years. This amortization began July 1, 1988 and has 15 years remaining (the liability will be fully amortized in fiscal year 2018).

The Vermont Municipal Employees Retirement System (MERS) (24 V.S.A., Chapter 125) is a cost sharing multiple-employer public employees' retirement system that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employers is required to join the system upon the completion of three years of continuous service.

Prior to July 1, 1987, the State was statutorily responsible for contributions to the MERS's pension accumulation fund. Effective July 1, 1987 and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers make quarterly payments into the pension accumulation fund. These payments are percentages of annual earnable compensation for each membership group and consist of a "normal" and an "accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial evaluations.

During fiscal year 2003, three municipal entities (Town of Bennington, City of Montpelier and Montpelier School System) joined the MERS. The transfers from non-state systems balance in the Statement of Changes in Fiduciary Net Assets includes the \$17,561,264 of actuarially determined contributions for the members added by these three municipal entities. Cash in the amount of \$7,316,920 was paid to MERS and the remaining balance of \$10,244,344 will be paid over a period of 30 years.

### **Defined Contribution Retirement Plans**

In accordance with Title 3 of the Vermont Statutes Annotated, Chapter 16A, the State established an optional defined contribution plan for exempt state employees effective January 1, 1999. The Vermont State Defined Contribution Plan is reported in the Pension Trust Funds.

The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. 374 exempt employees representing approximately 45% of the eligible employees elected to transfer to the defined contribution plan. Assets totaling \$21 million were transferred from the defined benefit plan to the defined contribution plan on January 4, 1999 as a result of the election. As the attendant decrease in liabilities in the defined benefit plan was equal to \$21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or defined contribution plan.

Employees are required to contribute at the rate equivalent to the contribution rate for Group F members of the VSRS. The State is required to contribute, to each employee's account, at the rate of 7% of the employee's compensation for each payroll period. An employee becomes vested in the plan after completion of 23 months of creditable service as a State employee. For the fiscal year ended June 30, 2003, plan member contributions were \$557,333 and State employer contributions were \$1,391,658. As of June 30, 2003, the Vermont State Defined Contribution Plan's net assets totaled \$26,920,943 and there were 551 participants.

The Legislature granted authority (24 V.S.A. Section 5070) to the Vermont Municipal Employees' Retirement System's Board of Trustees to establish a defined contribution plan that could be offered in lieu of the defined benefit plans currently available under the Municipal Retirement System. The board implemented a defined contribution plan that became available to new members effective July 1, 2000. The defined contribution plan was offered by municipal employers to one or more groups of their eligible employees. Once offered by the employer, each eligible employee was required to make an election to participate. Employees participating in one of the municipal defined benefit plans who elected to participate in the defined contribution plan had the July 1, 2001 actuarial value of their accrued defined benefit plan transferred to the defined contribution plan. Employers that did not offer the defined contribution plan to their employees as of December 31, 1999 will have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective the following year's July 1.

Participating municipal employees and their employers are required to contribute at the rate of 5%. Employees become vested in the plan after 12 months of service. For fiscal year ending June 30, 2003, plan participants and the municipalities each contributed \$442,375 and \$440,071 respectively, while members transferred \$30,455 into the defined contribution plan from other pension plans. As of June 30, 2003, the Municipal Employees' Defined Contribution Plan's net assets at fair value totaled \$5,775,959 and there were 447 participants.

Copies of each individual defined benefit retirement plan's annual actuarial valuation report, information describing each defined benefit plan's provisions including vesting requirements, benefits provided, post retirement adjustments, etc., and information relating to the two defined contribution plans are available for inspection at the Retirement Division, Office of the Vermont State Treasurer, 133 State Street, Montpelier, Vermont 05633-6901.

**B. Plan Membership**

At June 30, 2003, VSRS, STRS, and MERS membership consisted of:

|   | <u>VSRS</u>          | <u>STRS</u>          | <u>MERS</u>         |
|---|----------------------|----------------------|---------------------|
| Active employees:                               |                      |                      |                     |
| Vested  | 5,235                | 7,546                | 2,494               |
| Non-vested                                      | 2,641                | 2,809                | 2,966               |
| Total active employees                          | <u>7,876</u>         | <u>10,355</u>        | <u>5,460</u>        |
| Retirees and beneficiaries of deceased retirees |                      |                      |                     |
| currently receiving benefits                    | 3,728                | 4,169                | 1,028               |
| Terminated employees entitled to benefits       |                      |                      |                     |
| but not yet receiving them (vested)             | 767                  | 2,901                | 224                 |
| Inactive members                                | 1,033                | 583                  | 2,342               |
| Total participants                              | <u><u>13,404</u></u> | <u><u>18,008</u></u> | <u><u>9,054</u></u> |

**C. Schedules of Employer Contributions and Funding Progress**

Below are listed the various actuarial methods and significant assumptions used to determine the annual required contributions.

|  | <u>VSRS</u>   | <u>STRS</u>   | <u>MERS</u>   |
|--|---|---|---|
| Valuation date   | 06/30/03  | 06/30/03  | 07/01/03  |
| Actuarial cost method  | Entry age normal cost with frozen initial liability | Entry age normal cost with frozen initial liability | Projected benefit cost method                                   |
| Amortization method  | Level percentage of payroll                         | Level percentage of payroll                         | Level percentage of payroll                                     |
| Remaining amortization period  | 15 years  | 15 years  | 15 years  |
| Asset valuation method   | Actuarial value of assets                           | Actuarial value of assets                           | Actuarial value of assets using a five year smoothing technique |
| <u>Actuarial assumptions</u>   |   |   |   |
| Investment rate of return  | 8.0%  | 8.0%  | 8.0%  |
| Projected salary increases   | 4.5%-7.79%  | 4.41%-10.68%  | 5.6%  |
| Cost-of-living adjustments   | 1.5%-3.0%   | 1.5%-3.0%   | 2%-2.3%   |
| <u>Post Retirement Adjustments</u>   |   |   |   |
| Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated             | Groups A, C,D - 5%                                  | Group A - 5%  | N/A   |
| Allowances in payment for at least one year adjusted for cost of living based on one-half of CPI but not in excess of percentage indicated | Group F - 5%  | Group C - 5%  | Group A - 2%<br>Group B,C, D - 3%                               |

**Schedule Of Employer Contributions**

| Year Ended 6/30 | <u>VSRS</u>                  |                        | <u>STRS</u>                  |                        | <u>MERS</u>                  |                        |
|-----------------|------------------------------|------------------------|------------------------------|------------------------|------------------------------|------------------------|
|                 | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed |
| 1994            | 27,224,000                   | 80.04%                 | 25,805,000                   | 79.75%                 | 3,003,674                    | 100.00%                |
| 1995            | 29,245,000                   | 69.70%                 | 27,452,000                   | 65.86%                 | 3,045,585                    | 100.00%                |
| 1996            | 24,222,000                   | 88.52%                 | 28,712,000                   | 39.98%                 | 3,365,821                    | 100.00%                |
| 1997            | 24,098,000                   | 99.48%                 | 30,722,000                   | 58.85%                 | 3,541,692                    | 100.00%                |
| 1998            | 22,598,000                   | 104.26%                | 26,927,000                   | 67.14%                 | 3,665,833                    | 100.00%                |
| 1999            | 23,268,000                   | 98.66%                 | 20,724,000                   | 87.24%                 | 4,233,559                    | 100.00%                |
| 2000            | 19,548,817                   | 97.26%                 | 19,936,345                   | 93.23%                 | 4,788,671                    | 100.00%                |
| 2001            | 19,679,398                   | 99.34%                 | 20,970,278                   | 91.29%                 | 4,571,993                    | 100.00%                |
| 2002            | 24,189,000                   | 98.34%                 | 22,146,880                   | 92.33%                 | 4,984,484                    | 100.00%                |
| 2003            | 24,715,309                   | 98.70%                 | 28,279,810                   | 72.30%                 | 5,854,111                    | 100.00%                |

**Schedule of Funding Progress**

(dollar amounts in 1000's)

| Actuarial<br>Valuation<br>Date<br>6/30 | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>((b-a)/c) |
|--|--|---|------------------------------------|--------------------------|---------------------------|---|
| <b><u>VRSR</u></b>                     |  |   |                                    |                          |                           |   |
| 1994                                   | 428,678                                | 665,427   | 236,749                            | 64.4%                    | 217,043                   | 109.1%  |
| 1995                                   | 480,049                                | 679,427   | 199,378                            | 70.7%                    | 225,089                   | 88.6%   |
| 1996                                   | 560,659                                | 664,173   | 103,514                            | 84.4%                    | 226,792                   | 45.6%   |
| 1997                                   | 639,128                                | 753,883   | 114,755                            | 84.8%                    | 227,000                   | 50.6%   |
| 1998                                   | 733,716                                | 804,501   | 70,785                             | 91.2%                    | 235,956                   | 30.0%   |
| 1999                                   | 804,970                                | 876,412   | 71,441                             | 91.9%                    | 238,281                   | 30.0%   |
| 2000                                   | 895,151                                | 967,064   | 71,913                             | 92.6%                    | 266,519                   | 27.0%   |
| 2001                                   | 954,821                                | 1,026,993   | 72,172                             | 93.0%                    | 278,507                   | 25.9%   |
| 2002                                   | 990,450                                | 1,017,129   | 26,679                             | 97.4%                    | 300,994                   | 8.9%  |
| 2003                                   | 1,025,469                              | 1,052,004   | 26,535                             | 97.5%                    | 319,855                   | 8.3%  |
| <b><u>STRS</u></b>                     |  |   |                                    |                          |                           |   |
| 1994                                   | 473,229                                | 597,851   | 124,622                            | 79.2%                    | 335,155                   | 37.2%   |
| 1995                                   | 520,850                                | 648,052   | 127,202                            | 80.4%                    | 346,975                   | 36.7%   |
| 1996                                   | 570,776                                | 700,377   | 129,601                            | 81.5%                    | 355,895                   | 36.4%   |
| 1997                                   | 717,396                                | 849,179   | 131,783                            | 84.5%                    | 364,695                   | 36.1%   |
| 1998                                   | 821,977                                | 955,694   | 133,717                            | 86.0%                    | 357,899                   | 37.4%   |
| 1999                                   | 931,056                                | 1,066,400   | 135,344                            | 87.3%                    | 372,299                   | 36.4%   |
| 2000                                   | 1,037,466                              | 1,174,087   | 136,621                            | 88.4%                    | 387,999                   | 35.2%   |
| 2001                                   | 1,116,846                              | 1,254,341   | 137,496                            | 89.0%                    | 403,258                   | 34.1%   |
| 2002                                   | 1,169,294                              | 1,307,202   | 137,908                            | 89.5%                    | 418,904                   | 32.9%   |
| 2003                                   | 1,218,001                              | 1,358,822   | 140,821                            | 89.6%                    | 437,239                   | 32.2%   |
| <b><u>MERS</u></b>                     |  |   |                                    |                          |                           |   |
| 1994                                   | 60,646                                 | 59,251  | (1,394)                            | 102.4%                   | 62,300                    | -2.2%   |
| 1995                                   | 70,082                                 | 67,039  | (3,043)                            | 104.5%                   | 79,056                    | -4.9%   |
| 1996                                   | 81,396                                 | 73,401  | (7,994)                            | 110.9%                   | 68,700                    | -11.6%  |
| 1997                                   | 96,197                                 | 85,686  | (10,510)                           | 112.3%                   | 70,800                    | -14.8%  |
| 1998                                   | 113,678                                | 102,005   | (11,673)                           | 111.4%                   | 87,328                    | -14.8%  |
| 1999                                   | 137,454                                | 114,481   | (22,973)                           | 124.6%                   | 70,808                    | -32.4%  |
| 2000                                   | 161,900                                | 138,697   | (23,203)                           | 116.7%                   | 87,147                    | -26.6%  |
| 2001                                   | 177,928                                | 158,786   | (19,142)                           | 112.1%                   | 101,873                   | -18.8%  |
| 2002                                   | 193,278                                | 176,109   | (17,169)                           | 109.7%                   | 106,986                   | -16.0%  |
| 2003                                   | 222,854                                | 218,533   | (4,321)                            | 102.0%                   | 126,216                   | -3.4%   |

#### **D. State of Vermont's Annual Pension Cost and Net Pension Obligation**

The State's annual pension cost and net pension obligation (NPO) to the Vermont State Retirement System and the State Teachers' Retirement System at June 30, 2002 were as follows:

|                                    | <u>VRSR</u>         | <u>STRS</u>         |
|------------------------------------|---------------------|---------------------|
| Annual Required Contribution (ARC) | \$24,715,309        | \$28,279,810        |
| Interest on NPO                    | 3,076,151           | 7,444,098           |
| Adjustment to ARC                  | <u>(3,372,972)</u>  | <u>(8,012,591)</u>  |
| Annual Pension Cost (APC)          | 24,418,488          | 27,711,317          |
| Employer Contribution Made         | <u>(24,394,934)</u> | <u>(20,446,282)</u> |
| Increase (Decrease) in NPO         | 23,554              | 7,265,035           |
| NPO - Beginning of Year            | <u>38,451,886</u>   | <u>87,577,620</u>   |
| NPO - End of Year                  | <u>\$38,475,440</u> | <u>\$94,842,655</u> |
| Percentage of APC contributed      | 99.90%              | 73.78%              |

#### **E. Single Deposit Investment Account**

Public Act 41 of the 1981 Session authorized a new Group B non-contributory plan within the State Teachers Retirement System (STRS) and a new Group E non-contributory plan within the Vermont State Retirement System (VRSR). The Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan reported in the Pension Trust Funds, was also established according to the provisions of this Act.

The STRS's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group B non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

- (1) have both their accumulated employee contributions and accumulated interest returned to them; or
- (2) have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- (3) have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

The VRSR's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group E non-contributory plan. Group A members electing to transfer to the Group E plan had their choice between the following three options:

- (1) have both their accumulated employee contributions and accumulated interest returned to them; or
- (2) have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- (3) have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2003, there were 1,581 STRS members and 1,220 VRSR members, with net assets of \$106,788,184 in the Single Deposit Investment Account.

#### **F. Other Post Employment Benefits**

The State offers both post employment medical insurance and life insurance benefits in addition to providing pension benefits.

Employees retiring for any reason (disability, early, or normal) including the State Police, are entitled to receive medical coverage for themselves and their dependents over the lifetime of the retiree, with 20% of the cost to be paid by the retiree. If the retiree chooses the joint and survivor pension option, and predeceases his or her spouse, the medical benefits also continue for the spouse, along with the pension. However, generally, the surviving spouse must pay 100% of the cost.

In the case of life insurance, if a state employee retires or terminates due to disability prior to age 60, and proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. At that time, if the retiree has a total of 20 years or more of active and retired (while receiving disability) service, life insurance automatically changes to \$5,000 fully paid and 100% of the premium is paid by the State.

**Note 6: RESTRICTED NET ASSETS – Discretely Presented Component Units**

Restricted net assets are those portions of total net assets that are not appropriable for expenditure or that are legally segregated for a specific future use. Net assets restricted at June 30, 2003 are as follows.

| Discretely Presented Component Units | Vermont Student Assistance Corp | University Of Vermont | Vermont State Colleges | Non-major Component Units |
|--------------------------------------|---------------------------------|-----------------------|------------------------|---------------------------|
| <b>Restricted for:</b>               |                                 |                       |                        |                           |
| Bond Resolution                      | \$ 48,288,000                   | \$ -                  | \$ -                   | -                         |
| Grants and Scholarships              | 393,000                         | -                     | -                      | -                         |
| Project Commitments                  | -                               | -                     | -                      | 22,186,204                |
| Restricted- Nonexpendable            | -                               | 52,722,000            | 8,703,707              | -                         |
| Restricted- Expendable               | -                               | 196,907,000           | 2,540,889              | 6,500,000                 |
| Loans Receivable (1)                 | -                               | -                     | -                      | 65,986,021                |
| Total Component Units                |                                 |                       |                        |                           |
| Restricted Net Assets                | <u>\$ 48,681,000</u>            | <u>\$ 249,629,000</u> | <u>\$ 11,244,596</u>   | <u>\$ 94,672,225</u>      |

(1) Loans receivable for the Vermont Housing & Conservation Board include federally restricted funds.

**Note 7: LEASE COMMITMENTS:**

**Operating Leases**

The State is committed under various operating leases covering real property (land and buildings) and equipment. Although lease terms vary, certain leases continue subject to appropriation by the General Assembly. If continuation is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting purposes.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment:

| Fiscal Year  | Non Cancelable Leases | Cancelable Leases | Primary Government Totals | Vermont State Colleges | Vermont Student Assistance Corporation | Total Reporting Entity |
|--------------|-----------------------|-------------------|---------------------------|------------------------|--|------------------------|
| 2004         | \$4,614,344           | \$196,249         | \$4,810,593               | \$1,630,057            | \$654,000                              | \$7,094,650            |
| 2005         | 3,879,739             | 100,990           | 3,980,729                 | 1,379,034              | 299,000                                | 5,658,763              |
| 2006         | 2,978,742             | 45,702            | 3,024,444                 | 1,167,227              |  | 4,191,671              |
| 2007         | 2,408,802             | 31,295            | 2,440,097                 | 1,056,026              |  | 3,496,123              |
| 2008         | 2,146,032             | 2,825             | 2,148,857                 | 848,564                |  | 2,997,421              |
| 2009 to 2014 | 2,062,077             | 5,600             | 2,067,677                 | 92,626                 |  | 2,160,303              |
| Totals       | <u>\$18,089,736</u>   | <u>\$382,661</u>  | <u>\$18,472,397</u>       | <u>\$6,173,534</u>     | <u>\$953,000</u>                       | <u>\$25,598,931</u>    |

**Capital Leases**

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2003 are as follows:

| Fiscal Year                             | Vermont State Colleges | Total Reporting Entity |
|---|------------------------|------------------------|
| 2004                                    | \$34,338               | \$34,338               |
| 2005                                    | 34,338                 | 34,338                 |
| 2006                                    | 20,030                 | 20,030                 |
| Total Minimum Lease Payments            | 88,706                 | 88,706                 |
| Less: interest                          | (6,985)                | (6,985)                |
| Present value of minimum lease payments | <u>\$81,721</u>        | <u>\$81,721</u>        |

The State of Vermont, acting through its Agency of Transportation (AOT) entered into a capital lease with Main Street Landings Company, for premises in and adjacent to Union Station at 1 Main Street, Burlington, Vermont on January 20, 1998. The term of the lease was for a 20 year period and the entire 20 year rent of \$1,500,000 was prepaid in four equal installments beginning November 26, 1996 and ending in 1998. The terms of the lease give the State the right to purchase a condominium interest in their leased property at the end of the lease term for \$500,000 subject to certain terms and conditions. The State is also required to pay its share of certain annual operating costs throughout the terms of the lease. The State has allowed the Vermont Transportation Authority (VTA) to utilize these premises under the terms of a Memorandum of Agreement between AOT and VTA.

**Note 8: GENERAL OBLIGATION BONDS AND NOTES PAYABLE:**

General obligation bonds and notes payable have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correctional facilities, environmental conservation purposes, maintenance and construction of highways and assistance to municipalities for construction of water and sewage systems and local schools. Also, bonds have been authorized and issued to refund outstanding general obligation bonds.

Once authorized by the Legislature, the State Treasurer, with the approval of the Governor, may issue general obligation bonds. Except for zero coupon capital appreciation bonds, the bonds are to be payable in substantially equal or diminishing amounts, the first such payment to be payable not later than five years after the date of the bonds, and the last such payment to be made no later than twenty years after the date of the bonds.

Changes in bond and note principal payable during fiscal year 2003 are summarized as follows:

|                        | <b>General<br/>Obligation Bonds</b> |
|------------------------|-------------------------------------|
| Balance, July 1, 2002  | \$ 486,465,090                      |
| Additions:             |                                     |
| Issuances              | 67,355,000                          |
| Accretions             | 3,320,784                           |
| Total                  | 70,675,784                          |
| Deductions:            |                                     |
| Redemptions            | 51,355,000                          |
| Defeased               | 32,000,000                          |
| Total                  | (83,355,000)                        |
| Balance, June 30, 2003 | <u>\$ 473,785,874</u>               |

During fiscal years 1991, 1992, and 1994, the State issued zero coupon capital appreciation bonds. Zero coupon capital appreciation bonds are bonds issued at a discount to their face value. Instead of interest being paid on a periodic (i.e. semi-annual) basis, an increase in the principal due (accreted amount) is recognized on a regular basis. The total accreted amount at maturity will be the face value of the bonds.

On December 1, 1993, the State issued capital appreciation bonds with a maturity value of \$32,625,000 maturing on August 1 in the years 1999 through 2013. Proceeds from these bonds totaled \$17,987,640. At June 30, 2003, the accreted value of these bonds was \$16,964,279.

On October 30, 1991, capital appreciation bonds with a maturity value of \$20,575,000 were issued. These bonds mature on October 15 in the years 1996 through 2011. Proceeds from these bonds totaled \$9,999,837 and have an accreted value of \$8,783,695 at June 30, 2003.

During fiscal year 1991, capital appreciation bonds were issued with a maturity value of \$48,935,000 and are scheduled to mature on December 1 in the years 1995 through 2010. Proceeds from these bonds totaled \$19,310,002 and have an accreted value of \$25,282,902 at June 30, 2003.

Future general obligation debt service requirements at June 30, 2003 are as follows:

| Fiscal Year | Current Interest Bonds |                       | Capital Appreciation | Total                 |
|-------------|------------------------|-----------------------|----------------------|-----------------------|
|             | Principal              | Interest              | Bonds                |                       |
| 2004        | \$ 42,265,000          | \$ 20,122,018         | \$ 8,230,000         | \$ 70,617,018         |
| 2005        | 38,635,000             | 17,906,621            | 7,400,000            | 63,941,621            |
| 2006        | 36,855,000             | 16,081,356            | 7,410,000            | 60,346,356            |
| 2007        | 36,235,000             | 14,309,636            | 7,495,000            | 58,039,636            |
| 2008        | 34,885,000             | 12,686,254            | 7,500,000            | 55,071,254            |
| 2009-2013   | 145,590,000            | 40,223,059            | 26,565,000           | 212,378,059           |
| 2014-2018   | 71,045,000             | 12,134,151            | 2,000,000            | 85,179,151            |
| 2019-2022   | 17,245,000             | 1,387,993             | -                    | 18,632,993            |
| Totals      | <u>\$ 422,755,000</u>  | <u>\$ 134,851,088</u> | <u>\$ 66,600,000</u> | <u>\$ 624,206,088</u> |

At June 30, 2003, there remains \$39,200,868 of authorized but unissued General Obligation Bonds.

See following page for a schedule of General Obligation Bonds outstanding at June 30, 2003.



General Obligation Bonds outstanding at June 30, 2003 are comprised of the following issues:

| Date Issued  | Date Series Matures | Interest Rates % | Amount of Original Issue | Maturity Value of Capital Appreciation Bonds | Maturity Value of Bonds Outstanding |                      |                      | Total                 |
|--|---------------------|------------------|--------------------------|--|-------------------------------------|----------------------|----------------------|-----------------------|
|  |                     |                  |                          |  | Sources of Payments                 |                      |                      |                       |
|  |                     |                  |                          |  | General Fund                        | Transportation Fund  | Special Fund         |                       |
| <b>General Obligation Current Interest Bonds:</b>          |                     |                  |                          |  |                                     |                      |                      |                       |
| 8/1/1992   | 8/1/2008            | 3.0 to 5.75      | \$ 71,280,000            |  | \$ 17,860,000                       | \$ 755,000           | \$                   | \$ 18,615,000         |
| 8/1/1993   | 2/1/2012            | 3.0 to 5.0       | 58,415,000               |  | 44,395,000                          | 5,275,000            |                      | 49,670,000            |
| 10/15/1993   | 4/15/2008           | 3.7 to 6.6       | 85,000,000               |  | 11,401,500                          | 598,500              |                      | 12,000,000            |
| 11/15/1994   | 1/15/2014           | 5.6 to 7.0       | 70,000,000               |  | 10,321,800                          | 208,200              |                      | 10,530,000            |
| 12/1/1995  | 1/15/2015           | 4.875 to 5.125   | 60,000,000               |  | 37,880,000                          |                      |                      | 37,880,000            |
| 11/20/1996   | 1/15/2016           | 5.0 to 5.125     | 38,000,000               |  | 26,000,000                          |                      |                      | 26,000,000            |
| 12/12/1996   | 1/15/2016           | 3.7 to 5.6       | 15,000,000               |  | 10,260,000                          |                      |                      | 10,260,000            |
| 10/29/1997   | 1/15/2017           | 4.5 to 5.0       | 28,500,000               |  | 19,617,316                          | 1,382,684            |                      | 21,000,000            |
| 12/3/1997  | 1/15/2017           | 3.9 to 5.2       | 14,990,000               |  | 11,040,000                          |                      |                      | 11,040,000            |
| 3/15/1998  | 1/15/2014           | 4.25 to 5.0      | 64,575,000               |  | 37,431,775                          | 2,778,225            | 10,755,000           | 50,965,000            |
| 5/1/1998   | 1/15/2017           | 4.5 to 5.0       | 7,755,000                |  |                                     |                      | 6,140,000            | 6,140,000             |
| 11/23/1998   | 1/15/2018           | 4.5 to 4.75      | 26,630,000               |  | 20,497,176                          | 512,824              |                      | 21,010,000            |
| 12/22/1998   | 1/15/2004           | 3.6 to 4.0       | 7,655,000                |  | 1,530,000                           |                      |                      | 1,530,000             |
| 11/1/1999  | 2/1/2019            | 4.5 to 6.5       | 32,000,000               |  | 26,945,000                          |                      |                      | 26,945,000            |
| 12/16/1999   | 2/1/2010            | 4.55 to 5.05     | 5,000,000                |  | 3,500,000                           |                      |                      | 3,500,000             |
| 11/14/2001   | 8/1/2020            | 3.25 to 4.75     | 46,000,000               |  | 43,815,000                          |                      |                      | 43,815,000            |
| 12/27/2001   | 8/1/2011            | 4.0 to 4.375     | 5,000,000                |  | 4,500,000                           |                      |                      | 4,500,000             |
| 12/11/2002   | 8/1/2019            | 3.0 to 5.0       | 30,800,000               |  | 30,800,000                          |                      |                      | 30,800,000            |
| 12/17/2002   | 8/1/2013            | 2.0 to 5.0       | 31,555,000               |  | 29,959,000                          | 1,596,000            |                      | 31,555,000            |
| 2/4/2003   | 8/1/2007            | 2.0 to 2.2       | 5,000,000                |  | 5,000,000                           |                      |                      | 5,000,000             |
| <b>Total General Obligation Current Interest Bonds</b>     |                     |                  |                          |  | <b>392,753,567</b>                  | <b>13,106,433</b>    | <b>16,895,000</b>    | <b>422,755,000</b>    |
| <b>General Obligation Capital Appreciation Bonds:</b>      |                     |                  |                          |  |                                     |                      |                      |                       |
| 12/13/90   | 12/01/10            | N/A              | 19,310,002               | 48,935,000                                   | 32,895,000                          |                      |                      | 32,895,000            |
| 10/30/91   | 10/15/11            | N/A              | 9,999,837                | 20,575,000                                   | 11,565,000                          |                      |                      | 11,565,000            |
| 12/01/93   | 08/01/13            | N/A              | 17,987,640               | 32,625,000                                   | 22,140,000                          |                      |                      | 22,140,000            |
| <b>Total Maturity Value</b>                                |                     |                  |                          |  | <b>66,600,000</b>                   |                      |                      | <b>66,600,000</b>     |
| Less: Unaccreted Interest                                  |                     |                  |                          |  | 15,569,126                          |                      |                      | 15,569,126            |
| <b>Total General Obligation Capital Appreciation Bonds</b> |                     |                  |                          |  | <b>51,030,874</b>                   |                      |                      | <b>51,030,874</b>     |
| <b>Total General Obligation Bonds</b>                      |                     |                  |                          |  | <b>\$ 443,784,441</b>               | <b>\$ 13,106,433</b> | <b>\$ 16,895,000</b> | <b>\$ 473,785,874</b> |

**Note 9: BOND REFUNDINGS:**

A. Bonds Defeased Through Refunding

As authorized by Vermont statutes, during fiscal year 2003, the State of Vermont advance refunded a portion of its General Obligation Bonds, 1993 Series B maturing in 2006-2013 with an average coupon rate of 4.72%, through the issuance of \$31,555,000 of general obligation refunding bonds with an average coupon rate of 4.68%. Net proceeds totaling approximately \$33,778,426 (of which \$2,352,637 was premium and \$129,211 were issuance costs, underwriter discount, and contingency) were used to purchase U.S. Government securities that were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds of which \$32,000,000 remain outstanding as of June 30, 2003. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from long-term obligations in the Statement of Net Assets. As a result of this refunding, the State decreased current year debt service payments; has taken advantage of lower interest rates; and has decreased its aggregate debt service payments by approximately \$1,423,130 over the next 11 years (to August 1, 2013). Further, the State will experience an economic gain (the difference between the present values of the debt service payments to the refunded and refunding bonds) of approximately \$942,907.

B. Prior Defeasance

During fiscal year 1998, the State of Vermont defeased "in-substance" certain general obligation bonds by issuing new bonds and by placing the proceeds of these new bonds in an irrevocable trust. These trust assets will be utilized to make all future debt service payments on the old bonds. Accordingly, these trust assets and the liability for the old (now defeased) bonds are not included in the State's financial statements. As of June 30, 2003, \$28,080,000 of these defeased bonds remains outstanding.

**Note 10: ACCOUNTING METHOD CHANGES AND FUND EQUITY RESTATEMENTS:**

The Vermont Rehabilitation Corporation was previously reported in the Special Fund, renewed its registration as a corporation in fiscal year 2003, and is now reported as a discretely presented component unit.

The Federal Surplus Property Fund in fiscal year 2002 had reported the inventory as a restricted net asset. Because title to this remains with the federal government until the property is sold, the restricted net asset has been reclassified to deferred revenue.

The Governmental Activities beginning net assets has been restated for the reclassification of the Vermont Rehabilitation Corporation to a discretely presented component unit and the correction of prior period accounting errors, including the governmental activities capital assets.

The Business Activities beginning net assets has been restated due to the reclassification of the restricted net asset for federal surplus property inventory to deferred revenue.

The Vermont Veteran's Home beginning net assets has been restated to remove the fiduciary funds net assets from the business-type activities net asset balance.

During fiscal year 2003, the State changed the recognition of the medicaid liability from using 4 months of subsequent payments for prior year services to an accounting estimate of the total liability.

In the General Fund, prior to fiscal year 2003, personal income tax accrued revenue recognition included receivables that are assessed or estimated to be owed by the taxpayer as of June 30 that will be received by the State during the following 10 months. Beginning with fiscal year 2003, the State changed its personal income tax accrued revenue recognition policy to only recognize personal income tax accrued revenues in the amount to be collected within the sixty-day period after year end.

|                                    | Retained<br>Earnings/Fund<br>Balance/Net<br>Assets, July 1 | Reclassification<br>of Fund | Change in<br>accounting<br>method | Correction of<br>prior period<br>error | Retained<br>Earnings/Fund<br>Balance/Net<br>Assets, July 1, as<br>restated |
|------------------------------------|--|-----------------------------|-----------------------------------|--|--|
| <b>GOVERNMENTAL - MAJOR</b>        |  |                             |                                   |  |  |
| Special Fund                       | \$ 46,285,433  | \$ (275,996)                | \$ -                              | \$ -                                   | \$ 46,009,437  |
| <b>PROPRIETARY - NONMAJOR</b>      |  |                             |                                   |  |  |
| <b>Enterprise Funds</b>            |  |                             |                                   |  |  |
| Federal Surplus Property           | 329,635  | -                           | (479,005)                         |  | (149,370)  |
| <b>GOVERNMENT WIDE</b>             |  |                             |                                   |  |  |
| Government Activities              | 825,653,218  | (275,996)                   |                                   | 33,920,352                             | 859,297,574  |
| Business Activities                | 318,822,744  |                             | (479,005)                         |  | 318,343,739  |
| <b>COMPONENT UNITS - NONMAJOR</b>  |  |                             |                                   |  |  |
| Vermont Rehabilitation Corporation | -  | 275,996                     | -                                 |  | 275,996  |
| Vermont Veterans' Home             | 5,046,086  | -                           | (54,403)                          |  | 4,991,683  |

**Note 11: SEGMENT INFORMATION FOR ENTERPRISE FUNDS:**

The State reports three major and six non-major enterprise funds relating to sales of lottery tickets, liquor, Vermont Life Magazine and related products, industrial homework products, federal surplus property, adaptive equipment loans, municipal equipment loans, and Unemployment Compensation Trust Funds. Segment Information for the year ended June 30, 2003 is as follows:

|  | Vermont<br>Lottery<br>Commission | Liquor<br>Control<br>Fund | Unemployment<br>Compensation<br>Trust Fund | Non-major<br>Enterprise<br>Funds | Total<br>Enterprise<br>Funds |
|--|----------------------------------|---------------------------|--|----------------------------------|------------------------------|
| <b>Condensed Statement of Net Assets</b>                                   |                                  |                           |  |                                  |                              |
| Due From Other Funds   | \$ 214,660                       | \$ -                      | \$ -                                       | \$ 28,875                        | \$ 243,535                   |
| Total Other Current Assets   | 5,901,679                        | 5,546,736                 | 268,585,232                                | 4,136,775                        | 284,170,422                  |
| Total Capital Assets (Net)   | 79,666                           | 445,570                   | -  | 8,534                            | 533,770                      |
| Other Assets   | -                                | 5,700                     | -  | 1,531,614                        | 1,537,314                    |
| Total Assets   | <u>6,196,005</u>                 | <u>5,998,006</u>          | <u>268,585,232</u>                         | <u>5,705,798</u>                 | <u>286,485,041</u>           |
| Due To Other Funds   | 730,713                          | 286,122                   | 28,875                                     | 425,022                          | 1,470,732                    |
| Total Other Current Liabilities  | 4,767,761                        | 6,084,043                 | 3,566,987                                  | 1,067,915                        | 15,486,706                   |
| Total Restricted Liabilities   | 300,000                          | 5,700                     | -  | 669,759                          | 975,459                      |
| Total Liabilities  | <u>5,798,474</u>                 | <u>6,375,865</u>          | <u>3,595,862</u>                           | <u>2,162,696</u>                 | <u>17,932,897</u>            |
| Invested in capital assets, net of<br>related debt                         | 79,666                           | 445,570                   | -  | 8,534                            | 533,770                      |
| Restricted   | -                                | -                         | 264,989,370                                | -                                | 264,989,370                  |
| Unrestricted   | 317,865                          | (823,429)                 | -  | 3,534,568                        | 3,029,004                    |
| Total Net Assets   | <u>\$ 397,531</u>                | <u>\$ (377,859)</u>       | <u>\$ 264,989,370</u>                      | <u>\$ 3,543,102</u>              | <u>\$ 268,552,144</u>        |
| <b>Condensed Statement of Revenues, Expenses and Changes in Net Assets</b> |                                  |                           |  |                                  |                              |
| Charges For Sales/Service  | \$ 79,402,557                    | \$ 33,043,684             | \$ 38,309,410                              | \$ 1,691,876                     | \$ 152,447,527               |
| Other Operating Revenues   | 9,890                            | 1,210,463                 | 25,323,628                                 | 1,228,200                        | 27,772,181                   |
| Total Operating Revenues   | <u>79,412,447</u>                | <u>34,254,147</u>         | <u>63,633,038</u>                          | <u>2,920,076</u>                 | <u>180,219,708</u>           |
| Depreciation Expense   | 56,927                           | 123,544                   | -  | 4,766                            | 185,237                      |
| Other Operating Expenses   | 63,599,947                       | 34,207,663                | 130,315,726                                | 3,017,931                        | 231,141,267                  |
| Total Operating Expenses   | <u>63,656,874</u>                | <u>34,331,207</u>         | <u>130,315,726</u>                         | <u>3,022,697</u>                 | <u>231,326,504</u>           |
| Operating Income (Loss)  | 15,755,573                       | (77,060)                  | (66,682,688)                               | (102,621)                        | (51,106,796)                 |
| Non-operating Revenues/Expenses  | 467,031                          | 2,348                     | 17,530,445                                 | 14,459                           | 18,014,283                   |
| Transfers In (Out)-Net   | <u>(16,222,604)</u>              | <u>(359,779)</u>          | <u>(70,578)</u>                            | <u>70,578</u>                    | <u>(16,582,383)</u>          |
| Changes in Net Assets  | -                                | (434,491)                 | (49,222,821)                               | (17,584)                         | (49,674,896)                 |
| Beginning Net Assets   | 397,531                          | 56,632                    | 314,212,191                                | 3,560,686                        | 318,227,040                  |
| Ending Net Assets  | <u>\$ 397,531</u>                | <u>\$ (377,859)</u>       | <u>\$ 264,989,370</u>                      | <u>\$ 3,543,102</u>              | <u>\$ 268,552,144</u>        |
| <b>Condensed Statement Of Cash Flows</b>                                   |                                  |                           |  |                                  |                              |
| Net Cash Provided By:  |                                  |                           |  |                                  |                              |
| Operating Activities   | \$ 15,436,808                    | \$ 200,251                | \$ (66,487,485)                            | \$ 290,223                       | \$ (50,560,203)              |
| Noncapital Financing Activities  | (15,734,133)                     | (359,779)                 | -  | 51,374                           | (16,042,538)                 |
| Capital and Related Financing<br>Activities                                | (13,750)                         | (188,128)                 | -  | (13,300)                         | (215,178)                    |
| Investing Activities   | 530,039                          | -                         | 17,448,885                                 | 96,019                           | 18,074,943                   |
| Cash and Cash Equivalent-July 1  | 364,761                          | 2,330,482                 | 308,429,651                                | 1,399,851                        | 312,524,745                  |
| Cash and Cash Equivalent-June 30   | <u>\$ 583,725</u>                | <u>\$ 1,982,826</u>       | <u>\$ 259,391,051</u>                      | <u>\$ 1,824,167</u>              | <u>\$ 263,781,769</u>        |

## **Note 12: CONTINGENT AND LIMITED LIABILITIES:**

### **CONTINGENT LIABILITIES**

#### Vermont Economic Development Authority:

In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed it the Vermont Economic Development Authority (VEDA or the Authority) in 1993; and transferred the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority, and the Vermont Industrial Aid Board to it. Each of these original entities was relegated to a particular segment of industrial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. It is governed by a twelve member board which consists of the Secretary of Commerce & Community Development, the State Treasurer, the Secretary of Agriculture, Food and Markets, and nine public members appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to \$15 million of mortgages made by lenders for the purchase of land and construction of industrial building facilities in the State; to finance the purchase of machinery and equipment; and to provide working capital. The refinancing of existing mortgages is also possible under the act that created the Authority. As of June 30, 2003, the Authority had mortgage insurance contracts totaling \$5,098,145. The full faith and credit of the State is pledged to support these activities of the Authority.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lenders register with the Authority. The full faith and credit of the State is pledged in an amount equal to the reserve premium payment deposited by the participating lenders for each registered loan, with the aggregate amount of credit that may be pledged not to exceed \$2 million at any one time. The State's contingent liability at June 30, 2003 was \$915,022. The State's net cash contribution since inception is \$265,646.

The 1999 General Assembly created the Vermont Agricultural Credit Corporation (VACC) to be operated by the Authority. The VACC assumed all of the assets and liabilities of the Family Farm Debt Stabilization Program (DSP) and the Agriculture Finance Program (AFP). These programs were previously administered by the Authority. In 1988, the DSP borrowed \$20,000,000 from a group of Vermont banks. A pledge of the full faith and credit of the State secured the repayment of the debt. In 1996, the authority borrowed an additional \$2,000,000 from a single Vermont bank, also secured by the pledge of the full faith and credit of the State. As of June 30, 2003, these obligations were paid in full.

#### Federal Grants:

The State receives federal grants that are subject to audit and review by federal grantor agencies. This could result in expenditures being disallowed under the terms of the grants. However, it is believed that required reimbursements resulting therefrom would not be material.

### **LIMITED LIABILITIES**

#### Vermont Economic Development Authority:

The State has a limited liability for the Vermont Economic Development Authority. The Authority may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 219. Annually, the Authority must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

#### Vermont Municipal Bond Bank:

The State has a limited liability for the Vermont Municipal Bond Bank (Bank). The Bank is required to maintain debt service reserve funds. Title 24, V.S.A. Section 4675 requires the State to provide annual appropriations to restore the reserve funds to the required minimum balance, if necessary. It has never been necessary for the State to appropriate money to the reserve fund and it is not anticipated that it will need to make an appropriation in the future.

#### Vermont Housing Finance Agency:

The State has a limited liability for the Vermont Housing Finance Agency (Agency). The Agency may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 632. Annually, the Agency must report to the State the amount necessary to bring reserve fund balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve fund and it is not anticipated that any appropriation will have to be made.

**Note 13: LITIGATION**

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights actions, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. However, based on information provided by the Attorney General, it is believed that any ultimate liability to the State resulting from these suits, not covered by various insurance policies, would not materially affect the State's overall financial condition.

**Note 14: BUDGET STABILIZATION RESERVES**

The 1993 Legislature amended action taken by the 1987 Legislature by repealing legislation creating the Budget Stabilization Trust Fund and created separate Budget Stabilization Reserves within both the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve was created by the 1999 Legislature. These reserves were created to reduce the effects of annual variations in state revenues upon these funds by reserving certain surpluses of revenues.

The reserves balances will consist of any unreserved undesignated surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the General Assembly. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. Pursuant to action taken by the Legislature, the Transportation Fund's Budget Stabilization Reserve at June 30, 2003 was \$9,156,195, the General Fund's Budget Stabilization Reserve was \$23,564,564 at June 30, 2003, and the Education Fund's Budget Stabilization Reserve at June 30, 2003 was \$11,075,612.

**Note 15: JOINT VENTURE**

The State of Vermont has entered into a Tri-State Lotto Compact (Compact) with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery Commission (Commission) which is an interstate body, both corporate and politic, serving as a common agency of the party states and representing them both collectively and individually in the exercise of its powers and duties. The Commission is composed of one member from each of the party states. Each state's lottery commission appoints one of its members to this position. The three-member Commission annually elects a chairperson from among its members. The Commission is empowered to operate and administer Tri-State Lotto and to promulgate rules and regulations governing the establishment and operation of the lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the Commission. Fifty percent of the gross sales from each state are aggregated in a common prize pool, and operating costs are charged proportionally to each of the party states. The remaining revenues generated within each state remain in that particular state.

At June 28, 2003, the Commission had total assets of \$233,612,722 and total liabilities of \$200,419,007. For the fiscal year ended June 28, 2003, the Commission has operating revenues of \$77,078,618, interest income of \$137,465, commissions, fees, and bonus expenses of \$9,831,398, prize awards of \$38,336,744, and other operating expenses of \$4,077,849. During the fiscal year, the Commission made operating transfers to member states of \$24,970,092, which includes \$2,167,568 transferred to Vermont.

**Note 16: RISK MANAGEMENT****A. Workers' Compensation and Liability Risk Management**

The Risk Management Division of the Department of Buildings and General Services administers all risk management for state government with the exception of the health and life insurance plans listed below. State policy is to minimize the purchase of commercial insurance by either self-funding or otherwise retaining the risk when it makes sense to do so. The Risk Management Division sets aside assets and pays claims utilizing the following three Internal Service Funds:

Workers' Compensation Self Insurance Fund  
State Liability Self Insurance Fund  
Risk Management – All Other Fund (used for the purchase of commercial insurance)

The Workers' Compensation Fund covers all State employees pursuant to State statute. Certain quasi-governmental entities may also request coverage through this program. The State has unlimited exposure to liability and has not purchased any stop-loss insurance to limit this exposure. This liability is reviewed annually by an outside actuary, including a review of

incurred but not reported claims (IBNR). All claims are processed by Risk Management Division personnel and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's workers' compensation exposure is reliable. The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by the Risk Management Division utilizing departmental exposure and experience factors.

The State Liability Insurance Fund covers general and employment practices liability, discrimination, and auto liability risk. The coverage is comparable to standard private commercial policies. It offers coverage to the same group of participants as those covered by the workers' compensation program described above. Its exposure to risk in Vermont is subject to the doctrine of sovereign immunity and is governed by the Vermont Tort Claims Act, 12 V.S.A. §5601. Exposure outside of Vermont is potentially unlimited. It is self-insured for the first \$250,000 of exposure and has purchased excess commercial insurance to cover the additional per-occurrence exposure in amounts of up to \$1,000,000 in Vermont and \$10,000,000 for claims that are not subject to the Vermont Tort Claims Act. This liability is reviewed annually by an outside actuary, including a review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by the Risk Management Division, utilizing departmental exposure and experience factors. A third-party administrator (TPA) administers all claims other than minor property damage claims, which are administered by division staff. The liability loss projections and the claims processing data are audited annually by outside claims adjusters.

The Risk-Management – All Other Fund provides insurance coverage through purchased commercial policies for risks not covered in the above funds or which are self-assumed. This coverage provides insurance for State-owned real property, bonds for various categories of employees, robbery and burglary coverage for the federal food stamp program, errors and omissions coverage for judges, and various other miscellaneous coverage. The State's liability exposure is limited to the amount of the various deductibles associated with the respective coverage. Premium charges from the various insurers plus a 5% surcharge to cover administration costs are either assessed directly against the entity specifically requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Entities eligible for coverage are the same as those listed above for the other funds.

## **B. Health Care, Dental Insurance, Life Insurance, Employee Assistance, and Long Term Disability Funds For State Employee Benefit Plans**

The Employee Benefits and Wellness Division of the Department of Personnel maintains medical, dental, life insurance, employee assistance, and long term disability program funds for the benefit of current State employees, retirees, retired former employees allowed participation by statute or labor agreement, legislators, employees and certain former employees of outside groups which have been declared eligible to participate by statute. All or some of these named groups may participate in each plan depending upon the plan. Temporary and contractual employees are not eligible to participate in these plans.

Participating employees share in the premium cost of all of the medical plans. Premium rate setting is performed by an outside actuary in conjunction with the Employee Benefits and Fiscal and Information Management groups. The State's liability for incurred but not yet reported (IBNR) claims is calculated by the actuary and is based on the State's prior claims experience.

The current medical plan offerings include four plan options. TotalChoice, HealthGuard PPO, and SafetyNet are "preferred provider organization" indemnity-type plans. There is a lifetime limit on coverage for a participant in these three plans. The SelectCare POS is a "point of service" plan option, similar to an open-ended HMO. Members may opt out of the network but must meet a deductible and coinsurance to do so. There is no lifetime coverage limit, however, benefits are administered under a managed care arrangement. All four health plan options are self insured by the State. The State employs a third party administrator to provide administrative services, including claim payment. To limit the State's large claims exposure, the State has purchased stop loss insurance.

The self-funded State of Vermont Employee Dental Assistance Plan, provides up to \$1,000 regular dental benefits annually and up to \$1,750 lifetime for orthodontic expenses for each participant. These plan caps effectively limit the State's exposure to catastrophic loss so no stop-loss insurance has been purchased. The Fiscal and Information Management group within the Department of Personnel sets the premium rates, in consultation with the dental plan administrator's actuary. Participants include all groups mentioned in paragraph 1 above except for retirees. The State pays 100% of the premium for State employee participants and their covered dependents.

The State of Vermont Employee Life Insurance Program consists of a Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to two times a participant's base salary rounded down to the nearest \$100. Retirees who work for the State for at least twenty years and who have life insurance at the time of retirement receive a retiree life benefit of \$5,000 with no AD&D coverage. Both Life and AD&D are fully insured benefits. The State purchases insurance under which the carrier retains liability for all claims. The Fiscal and Information

Management group calculates the premium rates charged to departments for both of these programs. The State pays 75% of active employees premiums and 100% of retirees' premium costs. Only current State employees, retired State employees and current members of outside groups are eligible to participate.

A Flexible Spending Account Program is available to active State employees only. This account allows pre-tax salary deductions to be used to reimburse eligible medical and dependent care expenses.

An Employee Assistance Program (EAP) is provided for the benefit of State employees and members of their immediate household. This program assists employees and family members in addressing problems that impact their lives including stress, family issues, financial, drugs and substance abuse, and other issues. Active State employees and their families are eligible for this program. The EAP Program Manager is paid a monthly fee based on the number of employees who work for the State. The plan provides up to 5 counseling sessions per case through a network of providers. No claims costs, or claims liabilities are incurred under this plan by the State. The State pays 100% of the premium for this plan.

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become permanently disabled. The plan provides financial protection for State employees and their families by continuing a portion of their income while disabled. Only State employees who are not eligible to be represented by the employees' union, the Vermont State Employees Association, are eligible for this benefit. There is a one-year eligibility waiting period before coverage is effective. This plan is fully insured through an insurance company, so there is no liability to the State for claims. The premium is based on a percentage of the salaries of eligible participants. The State issues payment to the insurance company for the premium and the cost is then recovered from eligible employees in the following manner: Those eligible employees who are covered by a leave plan forfeit one day of sick leave per year. Those eligible employees who are not covered by a leave plan have a one-time .2% salary reduction in their next cost-of-living increase.

Presented below is a table displaying three years' changes in the respective funds' claims liability amounts.

| <u>Fund and Fiscal Year</u>  | <u>Liability at Beginning of the Fiscal Year</u> | <u>Current FY Claims and Changes in Estimates</u> | <u>Current FY Claims Payments</u> | <u>Balance of Liability at End of Fiscal Year</u> |
|------------------------------|--|---|-----------------------------------|---|
| <b>Workers' Compensation</b> |  |   |                                   |   |
| <b>Fund</b>                  |  |   |                                   |   |
| FY 2001                      | 10,206,695                                       | 7,470,814   | 5,686,611                         | 11,990,898  |
| FY 2002                      | 11,990,898                                       | 6,258,621   | 5,296,358                         | 12,953,161  |
| FY 2003                      | 12,953,161                                       | 10,014,881  | 7,479,065                         | 15,488,977  |
| <b>State Liability</b>       |  |   |                                   |   |
| <b>Insurance Fund</b>        |  |   |                                   |   |
| FY 2001                      | 5,107,857  | 3,020,229   | 1,395,800                         | 6,732,286   |
| FY 2002                      | 6,732,286  | 607,876   | 960,545                           | 6,379,617   |
| FY 2003                      | 6,379,617  | 1,853,539   | 1,523,564                         | 6,709,592   |
| <b>Medical</b>               |  |   |                                   |   |
| <b>Insurance Fund</b>        |  |   |                                   |   |
| FY 2001                      | 5,516,812  | 31,122,193  | 30,178,494                        | 6,460,511   |
| FY 2002                      | 6,460,511  | 38,189,077  | 36,322,720                        | 8,326,868   |
| FY 2003                      | 8,326,868  | 60,927,903  | 58,395,510                        | 10,859,261  |
| <b>Dental Insurance Fund</b> |  |   |                                   |   |
| FY 2001                      | 255,754  | 3,717,131   | 3,646,996                         | 325,889   |
| FY 2002                      | 325,889  | 4,363,223   | 4,340,822                         | 348,290   |
| FY 2003                      | 348,290  | 4,529,471   | 4,531,176                         | 346,585   |

## **NOTE 17: DEFICIT FUND BALANCES**

The following individual funds had deficit total net assets or deficit unrestricted net assets at June 30, 2003:

### **Business-type Proprietary Funds**

*Liquor Control Fund:* had a deficit unrestricted net asset balance of \$823,429 and a deficit total net asset balance of \$377,859 at June 30, 2003. It had a net loss before contributions and transfers of \$74,712 and transferred \$359,779 to the General Fund thereby reducing its total net asset balance by \$434,491 from a positive balance of \$56,632 at June 30, 2002 to a deficit balance of \$377,859 at June 30, 2003. The department has taken several steps to reduce these deficits including lowering the inventory levels in the outlets by using a weekly delivery schedule instead of a bi-weekly one; raising prices; etc; and expects to eliminate all deficit balances within three years.

*Federal Surplus Property Fund:* had an operating loss of \$91,174 for the fiscal year ended June 30, 2003, which further increased its total net asset deficit from \$149,370 at June 30, 2002 to \$240,544 at June 30, 2003. Its unrestricted net asset total was a deficit \$249,078 at June 30, 2003. Management is currently reviewing the fee structure associated with this activity with plans to raise them to increase the revenue. They also are looking at increasing efficiencies where possible so as to reduce costs.

### **Internal Service Funds**

*Financial & HR Information Fund:* in its first year of operation, experienced an operating loss of \$534,965 while ending the year with a deficit unrestricted net asset balance of \$559,697 at June 30, 2003. This deficit will be extinguished over a three-year period primarily through rate increases and cost reduction measures.

*Communications & Information Technology Fund:* had a deficit unrestricted net asset balance of \$1,731,381 and a deficit total net asset balance of \$831,861 at June 30, 2003. For fiscal year 2003, it incurred a net operating loss of \$983,308, had non-operating expenses of \$88,841 and made contributions and transfers of \$161,501, all of which resulted in a change to its total net asset balance from a positive \$401,789 at June 30, 2002 to the deficit \$831,861 indicated above. This deficit will be extinguished over a two-year period through rate adjustments and efficiencies in normal business operations.

*GOVNet Fund:* incurred an operating loss of \$141,667 during fiscal year 2003 which resulted in an increase in the deficit in both its deficit unrestricted net asset balance of \$583,062 and its deficit total net asset balance of \$358,950 at June 30, 2003. These deficits will be recovered via rate adjustments to its customers.

*Copy Center Fund:* had a deficit unrestricted net asset balance of \$2,036,827 but a positive total net asset balance of \$246,000 at June 30, 2003. The fund incurred an operating loss of \$123,126 during fiscal year 2003, which is the major component in the Change in Net Assets of \$185,235 that reduced the fund's total net asset balance from \$431,235 at June 30, 2002 to \$246,000 at June 30, 2003. This operating deficit will be addressed via a change in the current rate structure.

*Postage Center Fund:* had a deficit unrestricted net asset balance of \$66,956 but a positive total net asset balance of \$58,361 at June 30, 2003. For fiscal year 2003, it had operating income of \$150,919 and received \$85,570 in non-operating revenues. After transferring \$70,200 to the General Fund, its total net asset balance increased by \$166,289 from a deficit balance of \$107,928 at June 30, 2002 to a positive balance of \$58,361 at June 30, 2003. The deficit unrestricted net asset balance will be addressed via a change in the current rate structure charged to customers if necessary.

*Facilities Operations Fund:* had both a deficit unrestricted net asset balance of \$9,135,840 and a deficit total net asset balance of \$8,720,547 at June 30, 2003 as compared to deficits in the same categories of \$5,952,287 and \$5,584,944 respectively at June 30, 2002. It had an operating loss of \$3,130,776 for FY2003 as compared to an operating loss of \$3,642,274 for fiscal year 2002. In fiscal year 2004, the State transferred \$8.4 million via one-time appropriations that reduced the deficit fund balance to an unaudited \$1 million at June 30, 2004. The State intends to eliminate the balance of these deficits via a rent surcharge over a ten-year period.

*Workers' Compensation Fund:* had a deficit unrestricted net asset balance of \$7,242,117 and a deficit total net asset balance of \$7,218,111 at June 30, 2003. It incurred an operating loss of \$1,854,362 for FY2003. The State expects to eliminate these deficits through rate adjustments over the next five years.



*Property Management Fund:* had a deficit unrestricted net asset balance of \$4,191,445 and a deficit total net assets balance of \$4,170,567 at June 30, 2003. For FY2003, it had operating income of \$959,468 but transferred \$2,385,035 to the Special Fund for funding of bond principal and interest payments during fiscal year 2003 resulting in an increase of its deficit total net asset balance of \$1,425,567. This deficit net asset balance is a structural one resulting from a mismatch between twenty-year life bonds being used as the funding source for the purchase cost of a fifty-year life building. Tenants' annual rents cover 100% of the interest costs plus 2% of the bond principal amount so it will take fifty years to collect the total bond principal even though the underlying bond principal will be paid off in twenty years. The fund total net asset balance will continue to increase negatively until the bonds are paid off, and then will become less negative each succeeding year as the 2% annual principal payments are received until it finally goes to zero after fifty years.

**Note 18: INTERFUND BALANCES**

A. Interfund assets and liabilities for each individual fund within the Primary Government and within the Component Units at June 30, 2003 were:

| Fund Type/Fund   | Due From<br>Other<br>Funds | Due To<br>Other<br>Funds | Interfund<br>Loans<br>Receivable | Interfund<br>Loans<br>Payable |
|--|----------------------------|--------------------------|----------------------------------|-------------------------------|
| <b>PRIMARY GOVERNMENT</b>                              |                            |                          |                                  |                               |
| <b>GOVERNMENTAL FUNDS</b>                              |                            |                          |                                  |                               |
| <b>General Fund</b>                                    | \$ 523,742                 | \$ 905,830               | \$ 25,148,970                    | \$                            |
| <b>Special Revenue Funds</b>                           |                            |                          |                                  |                               |
| Transportation Fund                                    | 214,789                    | 675,614                  |                                  |                               |
| Education Fund   | 730,713                    | 214,660                  |                                  |                               |
| Special Fund   | 6,759,770                  | 850,470                  |                                  |                               |
| Federal Revenue Fund                                   | 1,583,899                  | 1,585,405                |                                  |                               |
| <b>Non-major Governmental Funds</b>                    |                            |                          |                                  |                               |
| Fish & Wildlife Fund                                   | 4,596                      | 32,926                   |                                  |                               |
| General Bond Fund                                      |                            | 218,631                  |                                  |                               |
| <b>PROPRIETARY FUNDS</b>                               |                            |                          |                                  |                               |
| <b>Enterprise Funds</b>                                |                            |                          |                                  |                               |
| Unemployment Compensation Trust Fund                   |                            | 28,875                   |                                  |                               |
| Liquor Control Fund                                    |                            | 286,122                  |                                  |                               |
| Vermont Lottery Fund                                   | 214,660                    | 730,713                  |                                  |                               |
| <b>Non-major Enterprise Funds</b>                      |                            |                          |                                  |                               |
| Industrial Homework Fund                               |                            |                          |                                  |                               |
| Federal Surplus Fund                                   |                            |                          |                                  | 242,211                       |
| Vermont Life Magazine Fund                             |                            |                          |                                  | 182,811                       |
| Unemployment Compensation Contingency Fund             | 28,875                     |                          |                                  |                               |
| <b>Internal Service Funds</b>                          |                            |                          |                                  |                               |
| Highway Garage Fund                                    |                            |                          |                                  | 365,121                       |
| Offender Work Programs                                 |                            |                          |                                  | 350,445                       |
| Single Audit Revolving Fund                            | 38                         |                          |                                  |                               |
| Finance & Human Resource Information Fund              |                            |                          |                                  | 307,559                       |
| Communication & Information Technology Fund            |                            |                          |                                  | 3,981,090                     |
| GOVnet Fund  |                            |                          |                                  | 504,592                       |
| Supply Center Fund                                     |                            |                          |                                  | 368,540                       |
| Copy Center Fund                                       |                            |                          |                                  | 2,568,186                     |
| Postage Fund   |                            |                          |                                  | 1,409,455                     |
| Facilities Operations Fund                             |                            |                          |                                  | 8,346,138                     |
| Property Management Fund                               |                            |                          |                                  | 4,201,207                     |
| Equipment Revolving Fund                               |                            | 1,478                    |                                  | 1,768,276                     |
| State Liability Insurance Fund                         | 70,587                     | 4,258                    |                                  |                               |
| Risk Management Fund                                   |                            | 3,164                    |                                  | 124,863                       |
| Workers' Compensation Fund                             | 7,422                      | 104,594                  |                                  |                               |
| <b>FIDUCIARY FUNDS</b>                                 |                            |                          |                                  |                               |
| <b>Pension Trust Funds</b>                             |                            |                          |                                  |                               |
| Vermont State Retirement System                        | 60,808                     |                          |                                  |                               |
| Vermont State Defined Contribution Plan                |                            | 55,049                   |                                  |                               |
| State Teachers' Retirement Plan                        |                            |                          |                                  |                               |
| Vermont Municipal Employees' Retirement Fund           | 74,028                     | 5,759                    |                                  |                               |
| Vermont Municipal Employees' Defined Contribution Plan |                            | 74,028                   |                                  |                               |
| <b>Private Purpose Trust Funds</b>                     |                            |                          |                                  |                               |
| Abandoned Property Fund                                |                            | 30,337                   |                                  |                               |
| <b>Agency Funds</b>                                    |                            |                          |                                  |                               |
| Retirement Contributions & Withholdings Fund           |                            | 457                      |                                  | 19,979                        |
| Federal Income Tax Withholdings Fund                   |                            | 1,048                    |                                  | 25,453                        |
| State Income Tax Withholdings Fund                     |                            | 368                      |                                  |                               |
| Social Security Contributions & Withholdings Fund      |                            | 849                      |                                  | 97,068                        |
| Employees Insurance Contributions & Withholdings Fund  |                            | 1,642                    |                                  | 15,644                        |
| Employees Deferred Income Withholdings Fund            |                            |                          |                                  | 2,308                         |
| Child Support Collections Fund                         | 2,367                      | 4,677,740                |                                  |                               |
| Unidentified Receipts Fund                             | 2,150                      | 2,150                    |                                  | 175,727                       |
| Vendor and Other Deposits Fund                         |                            | 6,012                    |                                  | 28,945                        |
| Other Employees Contributions & Withholdings Fund      | 219,745                    | 10                       |                                  | 63,352                        |
| <b>Total Primary Government Funds</b>                  | <b>10,498,189</b>          | <b>10,498,189</b>        | <b>25,148,970</b>                | <b>25,148,970</b>             |
| <b>COMPONENT UNITS</b>                                 |                            |                          |                                  |                               |
| Vermont Student Assistance Corporation                 |                            |                          |                                  |                               |
| <b>Non-major Component Units</b>                       |                            |                          |                                  |                               |
| Vermont Economic Development Authority                 |                            |                          |                                  |                               |
| Vermont Housing and Conservation Board                 |                            |                          |                                  |                               |
| Vermont Transportation Authority                       |                            |                          |                                  |                               |
| <b>Total Reporting Entity</b>                          | <b>\$ 10,498,189</b>       | <b>\$ 10,498,189</b>     | <b>\$ 25,148,970</b>             | <b>\$ 25,148,970</b>          |

| <u>Advances To Other Funds</u> | <u>Advances From Other Funds</u> | <u>Due From Component Units/Primary Government</u> | <u>Due To Component Units/Primary Government</u> | <u>Advances To Component Units/Primary Government</u> | <u>Advances From Component Units/Primary Government</u> |
|--------------------------------|----------------------------------|--|--|---|---|
| \$ 323,700                     | \$                               | \$ 2,806,037                                       | \$   | \$ 1,921,695  | \$  |
|                                |                                  | 1,599,285  | 41,655   |   |   |
|                                |                                  | 3,826,389  |  |   |   |
|                                | 5,700                            |  |  |   |   |
|                                | 300,000                          |  |  |   |   |
|                                | 1,700                            |  |  |   |   |
|                                | 1,200                            |  |  |   |   |
|                                | 15,100                           |  |  |   |   |
| <u>323,700</u>                 | <u>323,700</u>                   | <u>8,231,711</u>                                   | <u>41,655</u>                                    | <u>1,921,695</u>                                      | <u>0</u>  |
|                                |                                  |  | 5,425,674  |   | 1,921,695   |
|                                |                                  |  | 2,806,037  |   |   |
|                                |                                  | 41,655   |  |   |   |
| <u>\$ 323,700</u>              | <u>\$ 323,700</u>                | <u>\$ 8,273,366</u>                                | <u>\$ 8,273,366</u>                              | <u>\$ 1,921,695</u>                                   | <u>\$ 1,921,695</u>                                     |

**B.** Operating Transfers between the individual funds of the primary government for the fiscal year ending June 30, 2003 were:

| <b>Fund Type/Fund</b>                       | <b>Transfers In</b>   | <b>Transfers Out</b>  |
|---|-----------------------|-----------------------|
| <b>GOVERNMENTAL FUNDS</b>                   |                       |                       |
| <b>General Fund</b>                         | \$ 33,335,916         | \$ 314,955,861        |
| <b>Special Revenue Funds</b>                |                       |                       |
| Transportation Fund                         | 1,674,543             | 11,086,148            |
| Education Fund                              | 270,210,675           | 1,071,234             |
| Special Fund                                | 92,772,078            | 25,352,367            |
| Federal Revenue Fund                        | 2,926,589             | 22,959,234            |
| <b>Non-major Governmental Funds</b>         |                       |                       |
| Fish & Wildlife Fund                        | 370,201               |                       |
| General Bond Fund                           |                       | 6,797,716             |
| <b>PROPRIETARY FUNDS</b>                    |                       |                       |
| <b>Enterprise Funds</b>                     |                       |                       |
| Unemployment Compensation Trust Fund        | 247,497               | 318,075               |
| Liquor Control Fund                         |                       | 359,779               |
| Vermont Lottery Fund                        |                       | 16,222,604            |
| <b>Non-major Enterprise Funds</b>           |                       |                       |
| Unemployment Contingent Trust Fund          | 318,075               | 247,497               |
| <b>Internal Service Funds</b>               |                       |                       |
| Highway Garage Fund                         | 1,990,649             |                       |
| Finance & Human Resource Information Fund   | 5,049                 | 29,781                |
| Communication & Information Technology Fund |                       | 140,000               |
| Supply Center Fund                          |                       | 70,192                |
| Property Management Fund                    |                       | 2,385,035             |
| Postage Fund                                |                       | 70,200                |
| Long-term Disability Fund                   |                       | 14,000                |
| Employees Assistance Fund                   |                       | 89,000                |
| <b>PRIVATE PURPOSE TRUST FUNDS</b>          |                       |                       |
| Unclaimed Property Fund                     |                       | 1,682,549             |
| <b>Total</b>                                | <b>\$ 403,851,272</b> | <b>\$ 403,851,272</b> |

**Note 19: CHANGES IN LONG-TERM LIABILITIES**

During the year ended June 30, 2003, the following changes occurred in long-term liabilities:

**PRIMARY GOVERNMENT**

|   | <u>July 1, 2002,<br/>restated</u> | <u>Additions</u>      | <u>Reductions</u>     | <u>June 30, 2003</u>    | <u>Amounts due<br/>within one year</u> |
|---|-----------------------------------|-----------------------|-----------------------|-------------------------|--|
| <b>Governmental activities:</b>                         |                                   |                       |                       |                         |  |
| Bonds payable (1)                                       | \$ 486,465,090                    | \$ 70,675,784         | \$ 83,355,000         | \$ 473,785,874          | \$ 50,495,000                          |
| Compensated absences                                    | 26,064,083                        | 27,164,332            | 27,796,445            | 25,431,970              | 16,970,133                             |
| Claims and judgements                                   | 28,007,936                        | 14,071,637            | 8,675,158             | 33,404,415              | 11,205,946                             |
| Contingent liabilities                                  | 7,000,000                         | -                     | -                     | 7,000,000               | -                                      |
| Net pension obligation                                  | 126,029,506                       | 7,288,589             | -                     | 133,318,095             | -                                      |
| Other liabilities                                       | 421,386                           | 2,413,804             | 517,400               | 2,317,790               | -                                      |
| Total governmental activities<br>long-term liabilities  | <u>\$ 673,988,001</u>             | <u>\$ 121,614,146</u> | <u>\$ 120,344,003</u> | <u>\$ 675,258,144</u>   | <u>\$ 78,671,079</u>                   |
| <b>Business-type activities:</b>                        |                                   |                       |                       |                         |  |
| Compensated absences                                    | \$ 312,777                        | \$ 231,911            | \$ 263,489            | \$ 281,199              | \$ 183,530                             |
| Claims and judgements                                   | 3,670,907                         | -                     | 414,374               | 3,256,533               | 3,256,533                              |
| Total business-type activities<br>long-term liabilities | <u>\$ 3,983,684</u>               | <u>\$ 231,911</u>     | <u>\$ 677,863</u>     | <u>\$ 3,537,732</u>     | <u>\$ 3,440,063</u>                    |
| <b>Fiduciary:</b>                                       |                                   |                       |                       |                         |  |
| Compensated absences                                    | \$ 0                              | \$ 81,118             | \$ 76,433             | \$ 4,685                | \$ 4,653                               |
| Total fiduciary long-term liabilities                   | <u>\$ 0</u>                       | <u>\$ 81,118</u>      | <u>\$ 76,433</u>      | <u>\$ 4,685</u>         | <u>\$ 4,653</u>                        |
| <b>COMPONENT UNITS</b>                                  |                                   |                       |                       |                         |  |
| Bonds and notes payable                                 | \$ 1,788,736,479                  | \$ 505,570,556        | \$ 286,360,036        | \$ 2,007,946,999        | \$ 132,151,349                         |
| Capital leases payable                                  | 118,682                           | -                     | 36,961                | 81,721                  | 32,338                                 |
| Accrued arbitrage rebate                                | 15,661,192                        | 392,526               | 1,995,203             | 14,058,515              | 1,514,889                              |
| Other liabilities                                       | 41,206,370                        | 5,375,518             | 23,764,365            | 22,817,523              | 854,000                                |
| Total component units<br>long-term liabilities          | <u>\$ 1,845,722,723</u>           | <u>\$ 511,338,600</u> | <u>\$ 312,156,565</u> | <u>\$ 2,044,904,758</u> | <u>\$ 134,552,576</u>                  |

(1) Governmental activities bonds payable additions include \$3,320,784 of accretions on capital appreciation bonds.

## **Note 20: SUBSEQUENT EVENTS:**

### **Debt Issuances**

The State issued \$137,457,000 of 2004 Series A General Obligation Refunding Bonds dated February 11, 2004. Interest rates on these bonds vary from 1.1% to 5.0%. Payments to the bondholders are scheduled to commence August 1, 2004 and terminate February 1, 2018. The proceeds from this offering will be used to refund the following State's General Obligation Bonds:

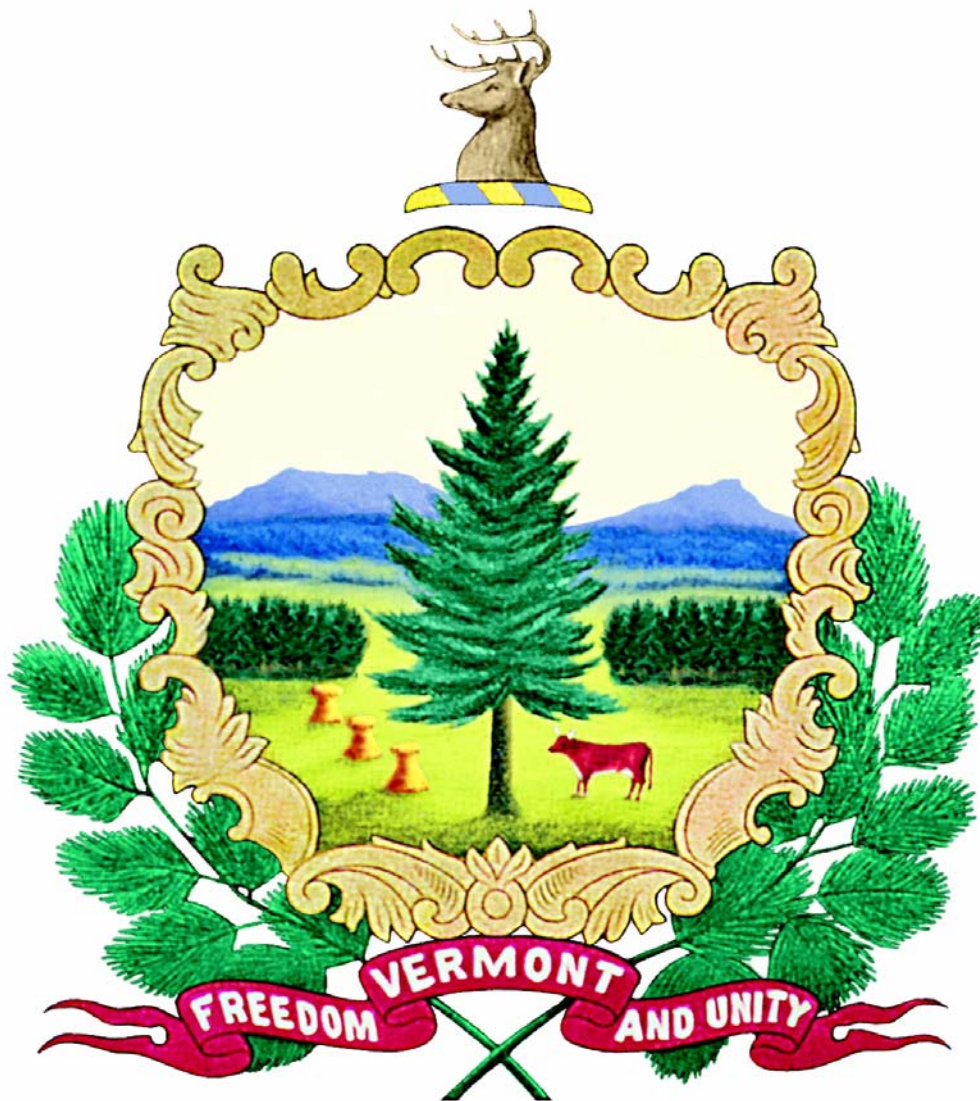
- 1993 Series A maturing in 2005 - 2012
- 1993 Series B maturing in 2005
- 1994 Series A maturing in 2006
- 1995 Series A maturing in 2008 - 2015
- 1996 Series B maturing in 2009 - 2016
- 1996 Series C maturing in 2009 - 2016
- 1997 Series A maturing in 2010 - 2013
- 1997 Series B maturing in 2010 - 2014 and in 2017
- 1998 Series B maturing in 2010 - 2014 and in 2016
- 1998 Series C maturing in 2010 - 2012
- 1999 Series A maturing in 2011 - 2018
- 2001 Series A maturing in 2012 - 2013
- 2002 Series A maturing in 2013

The State issued \$42,200,000 of 2004 Series B General Obligation Bonds dated February 15, 2004. The State expects to use approximately \$3.2 million of the proceeds to fund capital improvements authorized by the Legislature in years prior to 2003 and reallocated in Act 63 of 2003; and to use the remaining amount for capital projects authorized by Act 56 of 2003 and Act 63 of 2003. Interest rates vary on these bonds from 2% to 5%. Payments to the bondholders are scheduled to commence September 1, 2004 and terminate March 1, 2023.

The State also issued \$48,000,000 of 2004 Series A General Obligation Revenue Anticipation Note dated September 5, 2003. The proceeds were used to pay the expenses of government for which appropriations had been made but for which anticipated revenues had not been received; and for the purpose of paying expenses connected with the issuance of the note. The interest rate on these notes was 1.18%. The note matured and was paid off on March 5, 2004.

### **Multi-State Lottery Association**

In July 2003, the Vermont Lottery Commission entered into an agreement with the Multi-State Lottery Association (the Association) to participate in the "Powerball" game. Under the terms of the agreement, the Lottery may terminate the agreement at any time without prior notice if authority to participate is withdrawn by executive action or if participation is in conflict with the constitution or statutes of the State; otherwise, the Vermont Lottery Commission shall give the Association at least six months notice of its intention to withdraw.



## **SUPPLEMENTARY INFORMATION**

*Required Supplementary Information*

**STATE OF VERMONT  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | Original<br>Budget   | Final<br>Budget      | Actual<br>(Budgetary<br>Based) | Variance-<br>Favorable<br>(Unfavorable) |
|---|----------------------|----------------------|--------------------------------|---|
| <b>Revenues:</b>  |                      |                      |                                |   |
| Taxes.....  | \$ 833,235,890       | \$ 830,434,300       | \$ 845,480,549                 | \$ 15,046,249                           |
| Licenses.....   | 2,500,000            | 2,400,000            | 2,803,699                      | 403,699                                 |
| Fines, Forfeits and Penalties.....  | 2,584,000            | 7,200,000            | 3,386,646                      | (3,813,354)                             |
| Earnings of Departments.....  | 10,049,000           | 10,300,000           | 10,147,139                     | (152,861)                               |
| Interest and Premiums.....  | 3,100,000            | 2,650,000            | 1,481,581                      | (1,168,419)                             |
| Other.....  | 108,000              | 1,450,000            | 1,768,661                      | 318,661                                 |
| <b>Total Revenues.....</b>  | <b>851,576,890</b>   | <b>854,434,300</b>   | <b>865,068,275</b>             | <b>10,633,975</b>                       |
| <b>Expenditures:</b>  |                      |                      |                                |   |
| General Government.....   | 41,131,676           | 39,012,808           | 35,991,283                     | 3,021,525                               |
| Protection to Persons and Property.....   | 61,859,163           | 69,841,722           | 65,382,174                     | 4,459,548                               |
| Human Services.....   | 255,156,362          | 276,118,036          | 270,148,777                    | 5,969,259                               |
| Employment and Training.....  | 771,393              | 1,744,003            | 1,241,582                      | 502,421                                 |
| General Education.....  | 116,457,667          | 121,122,381          | 118,058,482                    | 3,063,899                               |
| Natural Resources.....  | 16,609,167           | 20,812,091           | 17,510,081                     | 3,302,010                               |
| Commerce and Community Development.....   | 12,724,150           | 14,575,359           | 13,002,117                     | 1,573,242                               |
| Debt Service.....   | 66,958,806           | 68,860,859           | 67,902,550                     | 958,309                                 |
| <b>Total Expenditures.....</b>  | <b>571,668,384</b>   | <b>612,087,259</b>   | <b>589,237,046</b>             | <b>22,850,213</b>                       |
| <b>Excess of Revenues over Expenditures.....</b>  | <b>279,908,506</b>   | <b>242,347,041</b>   | <b>275,831,229</b>             | <b>33,484,188</b>                       |
| <b>Other Financing Sources (Uses):</b>  |                      |                      |                                |   |
| Proceeds from Sale Refunding Bonds.....   | -                    | 32,131,728           | 32,131,728                     | -                                       |
| Operating Transfers In.....   | 545,352              | 32,230,853           | 32,230,853                     | -                                       |
| Payment to Escrow Agent.....  | -                    | (32,131,728)         | (32,131,728)                   | -                                       |
| Premium on Sale of Short Term Note.....   | -                    | 678,750              | 678,750                        | -                                       |
| Operating Transfers Out.....  | (326,485,935)        | (313,837,190)        | (313,837,190)                  | -                                       |
| Other Sources (Uses).....   | -                    | (2,204,948)          | (2,204,948)                    | -                                       |
| <b>Total Other Financing Sources (Uses)..</b>   | <b>(325,940,583)</b> | <b>(283,132,535)</b> | <b>(283,132,535)</b>           | <b>-</b>                                |
| <b>Excess of Revenues and Other Sources Over<br/>(Under) Expenditures and Other Uses.....</b> | <b>(46,032,077)</b>  | <b>(40,785,494)</b>  | <b>(7,301,306)</b>             | <b>33,484,188</b>                       |
| <b>Fund Balance, July 1.....</b>  | <b>68,220,238</b>    | <b>68,220,238</b>    | <b>68,220,238</b>              | <b>-</b>                                |
| <b>Fund Balance, June 30.....</b>   | <b>\$ 22,188,161</b> | <b>\$ 27,434,744</b> | <b>\$ 60,918,932</b>           | <b>\$ 33,484,188</b>                    |

The accompanying notes are an integral part of the required supplementary information.  
See Independent Auditor's Report.



**STATE OF VERMONT  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE  
TRANSPORTATION FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | Original<br>Budget  | Final<br>Budget        | Actual<br>(Budgetary<br>Based) | Variance-<br>Favorable<br>(Unfavorable) |
|---|---------------------|------------------------|--------------------------------|---|
| <b>Revenues:</b>  |                     |                        |                                |   |
| Taxes.....  | \$ 138,086,030      | \$ 138,220,000         | \$ 138,965,275                 | \$ 745,275                              |
| Licenses.....   | 53,200,000          | 53,300,000             | 55,118,973                     | 1,818,973                               |
| Fines, Forfeits and Penalties.....  | -                   | -                      | 8,723,256                      | 8,723,256                               |
| Earnings of Departments.....  | -                   | -                      | 4,276,021                      | 4,276,021                               |
| Federal.....  | 159,484,369         | 163,785,135            | 125,360,580                    | (38,424,555)                            |
| Interest and Premiums.....  | -                   | -                      | 1,367                          | 1,367                                   |
| Other.....  | 15,100,000          | 15,500,000             | 3,546,336                      | (11,953,664)                            |
| <b>Total Revenues.....</b>  | <b>365,870,399</b>  | <b>370,805,135</b>     | <b>335,991,808</b>             | <b>(34,813,327)</b>                     |
| <b>Expenditures:</b>  |                     |                        |                                |   |
| General Government.....   | 12,498,885          | 10,241,548             | 9,994,916                      | 246,632                                 |
| Protection to Persons and Property.....   | 27,559,736          | 28,758,250             | 28,132,959                     | 625,291                                 |
| Human Services.....   | 2,021,702           | 2,023,529              | 1,535,734                      | 487,795                                 |
| General Education.....  | 5,484,080           | 5,742,645              | 5,497,117                      | 245,528                                 |
| Natural Resources.....  | 1,111,894           | 1,234,904              | 1,040,654                      | 194,250                                 |
| Transportation.....   | 322,576,260         | 342,575,592            | 288,721,879                    | 53,853,713                              |
| Debt Service.....   | 2,835,622           | 3,575,329              | 2,820,400                      | 754,929                                 |
| <b>Total Expenditures.....</b>  | <b>374,088,179</b>  | <b>394,151,797</b>     | <b>337,743,659</b>             | <b>56,408,138</b>                       |
| <b>Excess of Revenues over (Under) Expenditures.....</b>                                      | <b>(8,217,780)</b>  | <b>(23,346,662)</b>    | <b>(1,751,851)</b>             | <b>21,594,811</b>                       |
| <b>Other Financing Sources (Uses):</b>  |                     |                        |                                |   |
| Proceeds from Sale of Notes and Bonds.....  | -                   | 1,646,698              | 1,646,698                      | -                                       |
| Operating Transfers In.....   | -                   | 603,309                | 603,309                        | -                                       |
| Payment to Escrow Agent.....  | -                   | (1,646,698)            | (1,646,698)                    | -                                       |
| Operating Transfers Out.....  | (3,160,649)         | (11,312,706)           | (11,312,706)                   | -                                       |
| <b>Total Other Financing Sources (Uses).....</b>  | <b>(3,160,649)</b>  | <b>(10,709,397)</b>    | <b>(10,709,397)</b>            | <b>-</b>                                |
| <b>Excess of Revenues and Other Sources Over<br/>(Under) Expenditures and Other Uses.....</b> | <b>(11,378,429)</b> | <b>(34,056,059)</b>    | <b>(12,461,248)</b>            | <b>21,594,811</b>                       |
| <b>Fund Balance, July 1.....</b>  | <b>13,861,449</b>   | <b>13,861,449</b>      | <b>13,861,449</b>              | <b>-</b>                                |
| <b>Fund Balance, June 30.....</b>   | <b>\$ 2,483,020</b> | <b>\$ (20,194,610)</b> | <b>\$ 1,400,201</b>            | <b>\$ 21,594,811</b>                    |

The accompanying notes are an integral part of the required supplementary information.  
See Independent Auditor's Report.

**STATE OF VERMONT  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE  
EDUCATION FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | Original<br>Budget   | Final<br>Budget       | Actual<br>(Budgetary<br>Based) | Variance-<br>Favorable<br>(Unfavorable) |
|---|----------------------|-----------------------|--------------------------------|---|
| <b>Revenues:</b>  |                      |                       |                                |   |
| Taxes.....  | \$ 549,710,000       | \$ 547,935,000        | \$ 556,833,262                 | \$ 8,898,262                            |
| Earnings of Departments.....  | 2,563,000            | 2,600,000             | 2,532,730                      | (67,270)                                |
| Interest and Premiums.....  | 150,000              | 150,000               | (307,382)                      | (457,382)                               |
| <b>Total Revenues.....</b>  | <b>552,423,000</b>   | <b>550,685,000</b>    | <b>559,058,610</b>             | <b>8,373,610</b>                        |
| <b>Expenditures:</b>  |                      |                       |                                |   |
| General Education.....  | 842,170,145          | 842,096,916           | 837,246,458                    | 4,850,458                               |
| <b>Total Expenditures.....</b>  | <b>842,170,145</b>   | <b>842,096,916</b>    | <b>837,246,458</b>             | <b>4,850,458</b>                        |
| <b>Excess of Revenues over (Under) Expenditures..</b>   | <b>(289,747,145)</b> | <b>(291,411,916)</b>  | <b>(278,187,848)</b>           | <b>13,224,068</b>                       |
| <b>Other Financing Sources (Uses):</b>  |                      |                       |                                |   |
| Operating Transfers In.....   | 271,585,935          | 269,522,204           | 269,522,204                    | -                                       |
| <b>Total Other Financing Sources (Uses)..</b>   | <b>271,585,935</b>   | <b>269,522,204</b>    | <b>269,522,204</b>             | <b>-</b>                                |
| <b>Excess of Revenues and Other Sources Over<br/>(Under) Expenditures and Other Uses.....</b> | <b>(18,161,210)</b>  | <b>(21,889,712)</b>   | <b>(8,665,644)</b>             | <b>13,224,068</b>                       |
| <b>Fund Balance, July 1.....</b>  | <b>19,880,336</b>    | <b>19,880,336</b>     | <b>19,880,336</b>              | <b>-</b>                                |
| <b>Fund Balance, June 30.....</b>   | <b>\$ 1,719,126</b>  | <b>\$ (2,009,376)</b> | <b>\$ 11,214,692</b>           | <b>\$ 13,224,068</b>                    |

The accompanying notes are an integral part of the required supplementary information.  
See Independent Auditor's Report.

**STATE OF VERMONT  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE  
SPECIAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | Original<br>Budget   | Final<br>Budget      | Actual<br>(Budgetary<br>Based) | Variance-<br>Favorable<br>(Unfavorable) |
|---|----------------------|----------------------|--------------------------------|---|
| <b>Revenues:</b>  |                      |                      |                                |   |
| Taxes.....  | \$ -                 | \$ -                 | \$ 117,874,988                 | \$ 117,874,988                          |
| Licenses.....   | -                    | -                    | 7,742,536                      | 7,742,536                               |
| Fines, Forfeits and Penalties.....  | -                    | -                    | 3,227,172                      | 3,227,172                               |
| Earnings of Departments.....  | -                    | -                    | 53,241,140                     | 53,241,140                              |
| Federal.....  | -                    | -                    | 3,583,044                      | 3,583,044                               |
| Interest and Premiums.....  | -                    | -                    | 2,675,153                      | 2,675,153                               |
| Other.....  | -                    | -                    | 102,603,944                    | 102,603,944                             |
| Special Fund Revenues.....  | 290,657,223          | 332,540,029          | -                              | (332,540,029)                           |
| <b>Total Revenues.....</b>  | <b>290,657,223</b>   | <b>332,540,029</b>   | <b>290,947,977</b>             | <b>(41,592,052)</b>                     |
| <b>Expenditures:</b>  |                      |                      |                                |   |
| General Government.....   | 5,671,410            | 15,890,075           | 10,998,774                     | 4,891,301                               |
| Protection to Persons and Property.....   | 46,574,938           | 53,987,971           | 49,246,986                     | 4,740,985                               |
| Human Services.....   | 231,812,524          | 251,543,362          | 241,526,153                    | 10,017,209                              |
| Employment and Training.....  | 3,095,257            | 3,095,257            | 2,145,866                      | 949,391                                 |
| General Education.....  | 3,844,171            | 22,406,219           | 15,755,757                     | 6,650,462                               |
| Natural Resources.....  | 25,562,189           | 29,275,114           | 26,445,435                     | 2,829,679                               |
| Commerce and Community Development.....   | 6,048,162            | 8,487,737            | 5,980,808                      | 2,506,929                               |
| Transportation.....   | -                    | 485,116              | 426,564                        | 58,552                                  |
| Public Service Enterprises.....   | -                    | 1,986,000            | 1,710,255                      | 275,745                                 |
| Debt Service.....   | 2,658,918            | 2,764,928            | 2,491,045                      | 273,883                                 |
| <b>Total Expenditures.....</b>  | <b>325,267,569</b>   | <b>389,921,779</b>   | <b>356,727,643</b>             | <b>33,194,136</b>                       |
| <b>Excess of Revenues over (Under) Expenditures.....</b>                                      | <b>(34,610,346)</b>  | <b>(57,381,750)</b>  | <b>(65,779,666)</b>            | <b>(8,397,916)</b>                      |
| <b>Other Financing Sources (Uses):</b>  |                      |                      |                                |   |
| Proceeds from Sale of Bonds.....  | -                    | 224,284              | 224,284                        | -                                       |
| Operating Transfers In.....   | 91,105,116           | 93,919,721           | 93,919,721                     | -                                       |
| Operating Transfers Out.....  | (17,795,352)         | (26,861,092)         | (26,861,092)                   | -                                       |
| <b>Total Other Financing Sources (Uses).....</b>  | <b>73,309,764</b>    | <b>67,282,913</b>    | <b>67,282,913</b>              | <b>-</b>                                |
| <b>Excess of Revenues and Other Sources Over<br/>(Under) Expenditures and Other Uses.....</b> | <b>38,699,418</b>    | <b>9,901,163</b>     | <b>1,503,247</b>               | <b>(8,397,916)</b>                      |
| <b>Fund Balance, July 1.....</b>  | <b>59,837,382</b>    | <b>59,837,382</b>    | <b>59,837,382</b>              | <b>-</b>                                |
| <b>Fund Balance, June 30.....</b>   | <b>\$ 98,536,800</b> | <b>\$ 69,738,545</b> | <b>\$ 61,340,629</b>           | <b>\$ (8,397,916)</b>                   |

The accompanying notes are an integral part of the required supplementary information.  
See Independent Auditor's Report.

**STATE OF VERMONT  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE  
FEDERAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | Original<br>Budget    | Final<br>Budget        | Actual<br>(Budgetary<br>Based) | Variance-<br>Favorable<br>(Unfavorable) |
|---|-----------------------|------------------------|--------------------------------|---|
| <b>Revenues:</b>  |                       |                        |                                |   |
| Federal.....  | \$ 807,577,488        | \$ 902,296,918         | \$ 880,414,737                 | \$ (21,882,181)                         |
| Interest and Premiums.....  | -                     | -                      | 37,047                         | 37,047                                  |
| Other.....  | -                     | -                      | 6,611,635                      | 6,611,635                               |
| <b>Total Revenues.....</b>  | <b>807,577,488</b>    | <b>902,296,918</b>     | <b>887,063,419</b>             | <b>(15,233,499)</b>                     |
| <b>Expenditures:</b>  |                       |                        |                                |   |
| General Government.....   | 2,808,795             | 3,096,857              | 2,729,601                      | 367,256                                 |
| Protection to Persons and Property.....   | 38,231,931            | 41,761,121             | 32,632,169                     | 9,128,952                               |
| Human Services.....   | 617,934,517           | 688,008,878            | 649,629,965                    | 38,378,913                              |
| Employment and Training.....  | 24,098,356            | 24,125,420             | 23,901,538                     | 223,882                                 |
| General Education.....  | 99,239,930            | 88,595,687             | 87,278,389                     | 1,317,298                               |
| Natural Resources.....  | 11,837,727            | 27,270,985             | 24,121,840                     | 3,149,145                               |
| Commerce and Community Development.....   | 13,426,232            | 29,437,970             | 14,200,341                     | 15,237,629                              |
| <b>Total Expenditures.....</b>  | <b>807,577,488</b>    | <b>902,296,918</b>     | <b>834,493,843</b>             | <b>67,803,075</b>                       |
| <b>Excess of Revenues over Expenditures.....</b>  | <b>-</b>              | <b>-</b>               | <b>52,569,576</b>              | <b>52,569,576</b>                       |
| <b>Other Financing Sources (Uses):</b>  |                       |                        |                                |   |
| Operating Transfers In.....   | -                     | 608,919                | 1,081,868                      | -                                       |
| Operating Transfers Out.....  | (1,185,116)           | (22,552,234)           | (22,552,234)                   | -                                       |
| <b>Total Other Financing Sources (Uses)...</b>  | <b>(1,185,116)</b>    | <b>(21,943,315)</b>    | <b>(21,470,367)</b>            | <b>-</b>                                |
| <b>Excess of Revenues and Other Sources Over<br/>(Under) Expenditures and Other Uses.....</b> | <b>(1,185,116)</b>    | <b>(21,943,315)</b>    | <b>31,099,209</b>              | <b>52,569,576</b>                       |
| <b>Fund Balance, July 1.....</b>  | <b>(4,720,941)</b>    | <b>(4,720,941)</b>     | <b>(4,720,941)</b>             | <b>-</b>                                |
| <b>Fund Balance, June 30.....</b>   | <b>\$ (5,906,057)</b> | <b>\$ (26,664,256)</b> | <b>\$ 26,378,268</b>           | <b>\$ 52,569,576</b>                    |

The accompanying notes are an integral part of the required supplementary information.  
See Independent Auditor's Report.

**Notes to Required Supplementary Information - Budgetary Reporting  
For the fiscal year ended June 30, 2003**

**RECONCILIATION OF BUDGETARY TO GAAP**

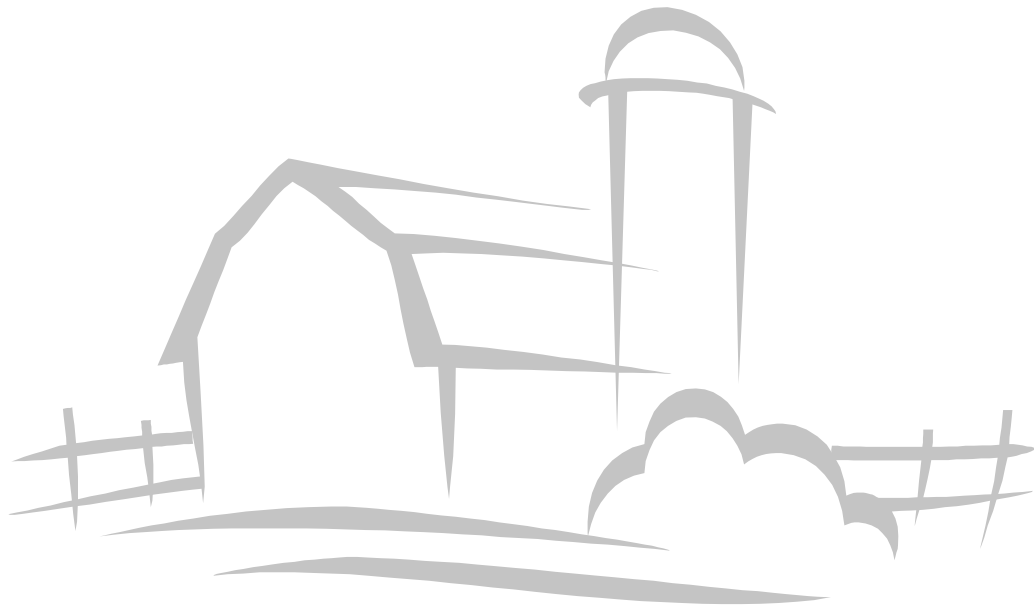
The State's annual budget is prepared on a basis (cash) other than GAAP. The actual results column of the "Budget and Actual" non-GAAP budgetary schedules are presented on a modified cash basis to provide a meaningful comparison to budget. The General and major Special Revenue Funds' statements are prepared on a modified accrual basis (GAAP). The major differences between the modified cash basis and the modified accrual basis are:

- 1 Expenditures are recognized when cash is paid or committed (budgetary) rather than when the obligation is incurred.
- 2 On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order not to double count revenues and expenditures.

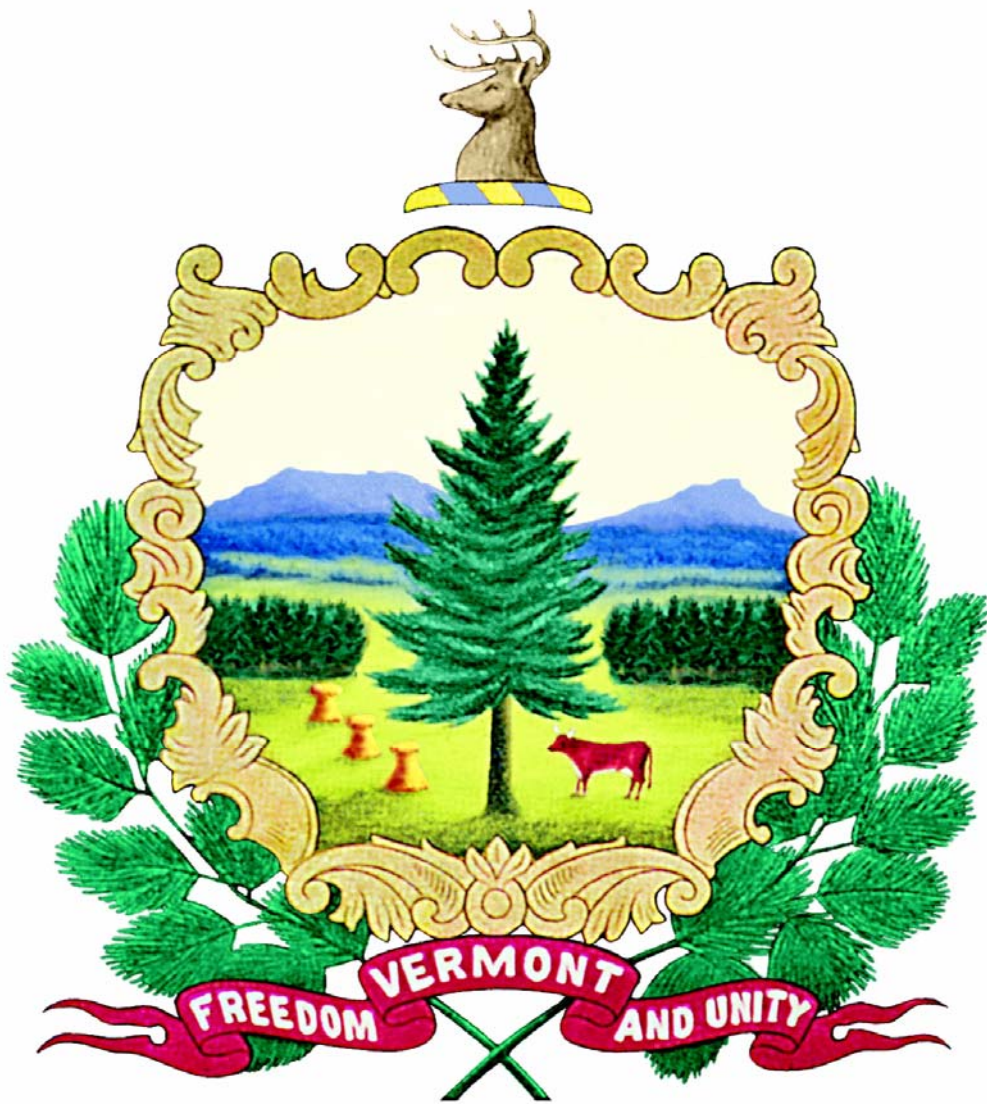
The following schedule reconciles the general and special revenue funds of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2003.

|  | <u>General<br/>Fund</u> | <u>Transportation<br/>Fund</u> | <u>Education<br/>Fund</u> | <u>Special<br/>Fund</u> | <u>Federal<br/>Revenue<br/>Fund</u> |
|--|-------------------------|--------------------------------|---------------------------|-------------------------|-------------------------------------|
| Fund Balance - Budgetary Basis   | \$ 60,918,932           | \$ 1,400,201                   | \$ 11,214,692             | \$61,340,629            | \$ 26,378,268                       |
| <u>Basis of Accounting Differences:</u>  |                         |                                |                           |                         |                                     |
| To record cash on hand, restricted cash, market value of investments             | 36                      | 1,675,523                      | -                         | 1,601,840               | 225                                 |
| To record taxes receivable   | 121,537,086             | 6,900,181                      | 6,466,646                 | 4,024,166               | -                                   |
| To record loans/notes receivable, due from other funds, and other receivables    | 2,078,880               | 10,302,700                     | 730,713                   | 20,959,333              | 11,822,040                          |
| To record due from federal government  | -                       | 22,908,370                     | -                         | -                       | 111,577,788                         |
| To record accounts and retainage payable, accrued liabilities, deferred revenue. | (83,513,002)            | (40,483,235)                   | (11,155,173)              | (49,834,321)            | (122,798,759)                       |
| To record tax refunds payable  | (538,060)               | -                              | -                         | -                       | -                                   |
| To record due to other funds   | (905,830)               | (675,614)                      | (214,660)                 | (850,470)               | (1,585,405)                         |
| To record due to component units   | -                       | (41,655)                       | -                         | -                       | -                                   |
| To record effects of blended component units                                     | -                       | 2,471,632                      | -                         | 3,247,000               | 16,948,258                          |
| To record removal of discretely presented component unit                         | 174,633                 | -                              | -                         | 2,188,101               | (747,067)                           |
| Fund Balance - GAAP Basis  | <u>\$ 99,752,675</u>    | <u>\$ 4,458,103</u>            | <u>\$ 7,042,218</u>       | <u>\$42,676,278</u>     | <u>\$ 41,595,348</u>                |

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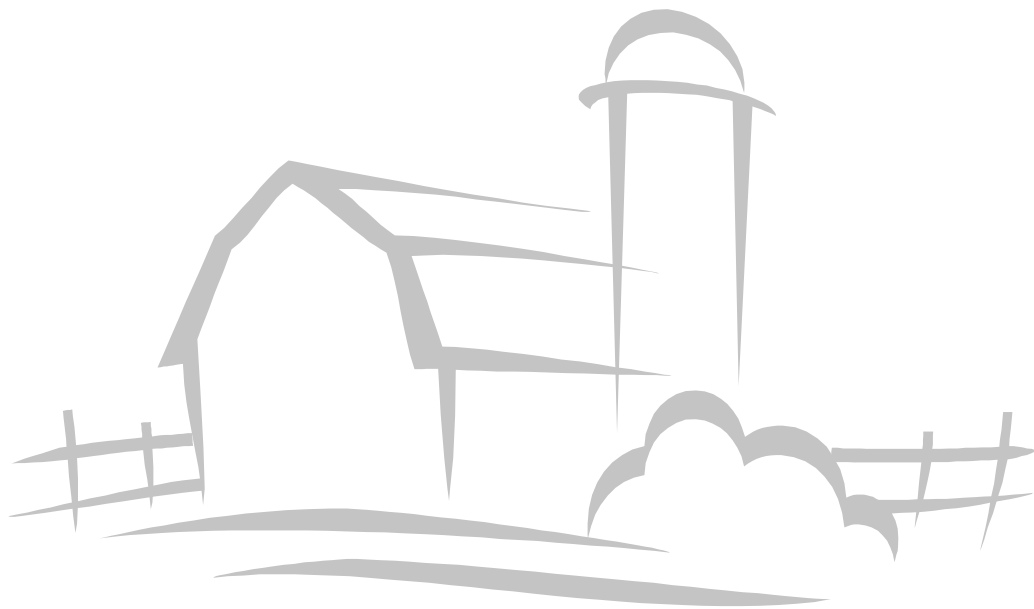


*Vermont*



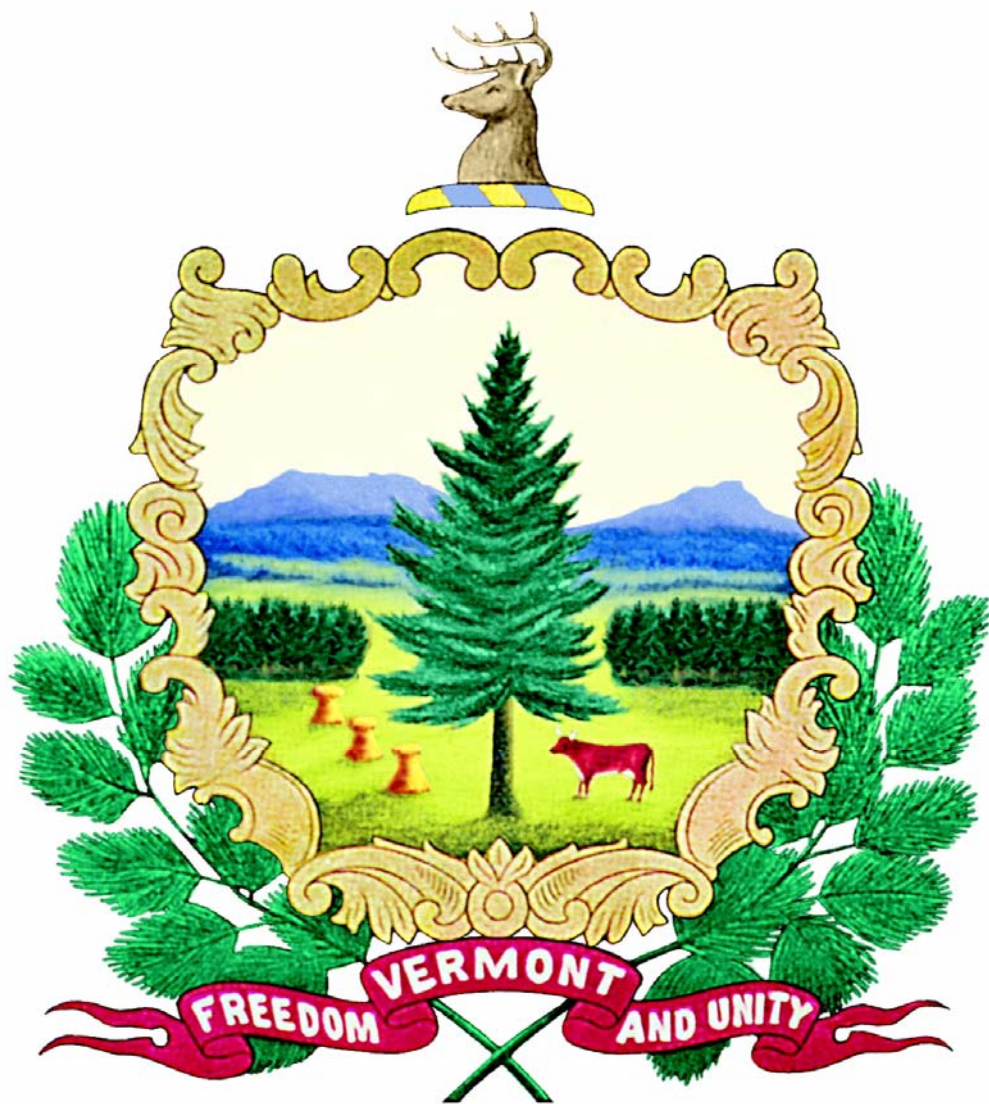
## ***COMBINING FINANCIAL STATEMENTS***

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*Vermont*





**NONMAJOR  
GOVERNMENTAL FUNDS**

State of Vermont  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2003

|   | <u>Special Revenue</u>              | <u>Capital Projects</u>      |                                     |
|---|-------------------------------------|------------------------------|-------------------------------------|
|   | <u>Fish &amp; Wildlife<br/>Fund</u> | <u>General Bond<br/>Fund</u> | <u>Transportation<br/>Bond Fund</u> |
| <b>ASSETS:</b>  |                                     |                              |                                     |
| Cash and cash equivalents.....                            | \$ 3,718,118                        | \$ 45,067,393                | \$ -                                |
| Investments.....  | -                                   | -                            | -                                   |
| Receivables:  |                                     |                              |                                     |
| Taxes receivable.....                                     | 84,812                              | -                            | -                                   |
| Other receivables.....                                    | 452,429                             | 3,919                        | -                                   |
| Intergovernmental receivable - federal<br>government..... | 489,637                             | -                            | -                                   |
| Due from other funds.....                                 | 4,596                               | -                            | -                                   |
| <b>Total assets.....</b>                                  | <b><u>\$ 4,749,592</u></b>          | <b><u>\$ 45,071,312</u></b>  | <b><u>\$ -</u></b>                  |
| <b>LIABILITIES AND FUND BALANCE</b>                       |                                     |                              |                                     |
| <b>LIABILITIES:</b>                                       |                                     |                              |                                     |
| Accounts payable.....                                     | \$ 529,307                          | \$ 1,818,230                 | \$ -                                |
| Accrued liabilities.....                                  | 398,731                             | 2,701                        | -                                   |
| Due to other funds.....                                   | 32,926                              | 218,631                      | -                                   |
| Retainage payable.....                                    | -                                   | 115,127                      | -                                   |
| <b>Total Liabilities.....</b>                             | <b><u>960,964</u></b>               | <b><u>2,154,689</u></b>      | <b><u>0</u></b>                     |
| <b>FUND BALANCE:</b>                                      |                                     |                              |                                     |
| Reserved for:   |                                     |                              |                                     |
| Encumbrances.....   | 132,851                             | 5,617,360                    | -                                   |
| Endowments.....   | -                                   | -                            | -                                   |
| Unreserved:   |                                     |                              |                                     |
| Designated for specific purposes.....                     | -                                   | 37,299,263                   | -                                   |
| Undesignated.....   | 3,655,777                           | -                            | -                                   |
| <b>Total fund balance.....</b>                            | <b><u>3,788,628</u></b>             | <b><u>42,916,623</u></b>     | <b><u>0</u></b>                     |
| <b>Total liabilities and fund balance.....</b>            | <b><u>\$ 4,749,592</u></b>          | <b><u>\$ 45,071,312</u></b>  | <b><u>\$ -</u></b>                  |

**Permanent Funds**

| <b>Higher Education<br/>Endowment Fund</b> | <b>Vermont<br/>Sanitorium Fund</b> | <b>Albert C. Lord<br/>Trust Fund</b> | <b>Lumberjack<br/>Fund</b> |
|--|------------------------------------|--------------------------------------|----------------------------|
| \$ (826)                                   | \$ 15,709                          | \$ 24,193                            | \$ 14,620                  |
| 8,572,981                                  | 235,327                            | 208,792                              | 10,403                     |
| -  | -                                  | -                                    | -                          |
| -  | -                                  | -                                    | -                          |
| -  | -                                  | -                                    | -                          |
| -  | -                                  | -                                    | -                          |
| <b>\$ 8,572,155</b>                        | <b>\$ 251,036</b>                  | <b>\$ 232,985</b>                    | <b>\$ 25,023</b>           |
| -  | -                                  | -                                    | -                          |
| -  | -                                  | -                                    | -                          |
| -  | -                                  | -                                    | -                          |
| -  | -                                  | -                                    | -                          |
| <b>0</b>                                   | <b>0</b>                           | <b>0</b>                             | <b>0</b>                   |
| -  | -                                  | -                                    | -                          |
| 7,000,000                                  | 206,502                            | 183,217                              | 9,129                      |
| -  | -                                  | -                                    | -                          |
| 1,572,155                                  | 44,534                             | 49,768                               | 15,894                     |
| <b>8,572,155</b>                           | <b>251,036</b>                     | <b>232,985</b>                       | <b>25,023</b>              |
| <b>\$ 8,572,155</b>                        | <b>\$ 251,036</b>                  | <b>\$ 232,985</b>                    | <b>\$ 25,023</b>           |

State of Vermont  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2003

|   | Permanent Funds                        |                                |                         |
|---|--|--------------------------------|-------------------------|
|   | Couching Lion<br>Farm Cemetery<br>Fund | Carrie P.<br>Underwood<br>Fund | Laura H. Morgan<br>Fund |
| <b>ASSETS:</b>  |  |                                |                         |
| Cash and cash equivalents.....                            | \$ 17,376                              | \$ 2,797                       | \$ 173                  |
| Investments.....  | 2,199                                  | 12,661                         | 2,849                   |
| Receivables:  |  | -                              |                         |
| Taxes receivable.....                                     | -                                      | -                              | -                       |
| Other receivables.....                                    | -                                      | -                              | -                       |
| Intergovernmental receivable - federal<br>government..... | -                                      | -                              | -                       |
| Due from other funds.....                                 | -                                      | -                              | -                       |
| <b>Total assets.....</b>                                  | <b>\$ 19,575</b>                       | <b>\$ 15,458</b>               | <b>\$ 3,022</b>         |
| <b>LIABILITIES AND FUND BALANCE</b>                       |  |                                |                         |
| <b>LIABILITIES:</b>                                       |  |                                |                         |
| Accounts payable.....                                     | \$ -                                   | \$ -                           | \$ -                    |
| Accrued liabilities.....                                  | -                                      | -                              | -                       |
| Due to other funds.....                                   | -                                      | -                              | -                       |
| Retainage payable.....                                    | -                                      | -                              | -                       |
| <b>Total Liabilities.....</b>                             | <b>0</b>                               | <b>0</b>                       | <b>0</b>                |
| <b>FUND BALANCE:</b>                                      |  |                                |                         |
| Reserved for:   |  |                                |                         |
| Encumbrances.....   | -                                      | -                              | -                       |
| Endowments.....   | 1,930                                  | 11,110                         | 2,500                   |
| Unreserved:   |  |                                |                         |
| Designated for specific purposes.....                     | -                                      | -                              | -                       |
| Undesignated.....   | 17,645                                 | 4,348                          | 522                     |
| <b>Total fund balance.....</b>                            | <b>19,575</b>                          | <b>15,458</b>                  | <b>3,022</b>            |
| <b>Total liabilities and fund balance.....</b>            | <b>\$ 19,575</b>                       | <b>\$ 15,458</b>               | <b>\$ 3,022</b>         |

| <b>Permanent Funds</b>                     |                                |           | <b>Total Nonmajor<br/>Governmental<br/>Funds</b> |
|--|--------------------------------|-----------|--|
| <b>Bennington Battle<br/>Monument Fund</b> | <b>Zenus H. Ellis<br/>Fund</b> |           |  |
| \$ 224                                     | \$ 205                         | \$        | 48,859,982                                       |
| 1,214                                      | 1,140                          |           | 9,047,566  |
| -  | -                              |           | 84,812   |
| -  | -                              |           | 456,348  |
| -  | -                              |           | 489,637  |
| -  | -                              |           | 4,596  |
| <b>\$ 1,438</b>                            | <b>\$ 1,345</b>                | <b>\$</b> | <b>58,942,941</b>                                |
| <br>                                       |                                |           |  |
| \$ -                                       | \$ -                           | \$        | 2,347,537  |
| -  | -                              |           | 401,432  |
| -  | -                              |           | 251,557  |
| -  | -                              |           | 115,127  |
| <b>0</b>                                   | <b>0</b>                       |           | <b>3,115,653</b>                                 |
| <br>                                       |                                |           |  |
| -  | -                              |           | 5,750,211  |
| 1,065                                      | 1,000                          |           | 7,416,453  |
| -  | -                              |           | 37,299,263                                       |
| 373  | 345                            |           | 5,361,361  |
| <b>1,438</b>                               | <b>1,345</b>                   |           | <b>55,827,288</b>                                |
| <b>\$ 1,438</b>                            | <b>\$ 1,345</b>                | <b>\$</b> | <b>58,942,941</b>                                |

**STATE OF VERMONT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | <u>Special Revenue</u>              | <u>Capital Projects</u>      |                                     |
|--|-------------------------------------|------------------------------|-------------------------------------|
|  | <u>Fish &amp; Wildlife<br/>Fund</u> | <u>General Bond<br/>Fund</u> | <u>Transportation<br/>Bond Fund</u> |
| <b>REVENUES:</b>   |                                     |                              |                                     |
| Taxes:   |                                     |                              |                                     |
| Motor fuel tax.....  | \$ 1,015,426                        | \$ -                         | \$ -                                |
| Earnings of departments:                                     |                                     |                              |                                     |
| Fees.....  | 231,456                             | -                            | -                                   |
| Rents and leases.....  | 66,256                              | -                            | -                                   |
| Federal grants.....  | 4,109,066                           | -                            | -                                   |
| Fines, forfeits and penalties.....                           | 34,760                              | -                            | -                                   |
| Investment income.....                                       | 37,339                              | -                            | -                                   |
| Licenses:  |                                     |                              |                                     |
| Business.....  | 1,865                               | -                            | -                                   |
| Non-business.....  | 6,088,509                           | -                            | -                                   |
| Special assessments.....                                     | 19,699                              | -                            | -                                   |
| Other revenues.....  | 404,135                             | 46,555                       | -                                   |
| <b>Total revenues.....</b>                                   | <b>12,008,511</b>                   | <b>46,555</b>                | <b>0</b>                            |
| <b>EXPENDITURES:</b>   |                                     |                              |                                     |
| General government.....                                      | -                                   | 9,164,326                    | -                                   |
| Protection to persons and property.....                      | -                                   | 2,161,948                    | -                                   |
| Human services.....  | -                                   | 2,337,855                    | -                                   |
| General education.....                                       | -                                   | 23,402,939                   | -                                   |
| Natural resources.....                                       | 13,662,034                          | 2,755,215                    | -                                   |
| Commerce and community development.....                      | -                                   | 879,810                      | -                                   |
| Transportation.....  | -                                   | -                            | 3                                   |
| <b>Total expenditures.....</b>                               | <b>13,662,034</b>                   | <b>40,702,093</b>            | <b>3</b>                            |
| <b>Excess of revenues over<br/>(under) expenditures.....</b> | <b>(1,653,523)</b>                  | <b>(40,655,538)</b>          | <b>(3)</b>                          |
| <b>Other Financing Sources (Uses):</b>                       |                                     |                              |                                     |
| Proceeds from the sale of bonds.....                         | -                                   | 35,800,000                   | -                                   |
| Transfers in.....  | 370,201                             | -                            | -                                   |
| Transfers (out).....   | -                                   | (6,797,716)                  | -                                   |
| <b>Total other financing sources (uses).....</b>             | <b>370,201</b>                      | <b>29,002,284</b>            | <b>0</b>                            |
| <b>Net change in fund balances.....</b>                      | <b>(1,283,322)</b>                  | <b>(11,653,254)</b>          | <b>(3)</b>                          |
| <b>Fund balance, July 1.....</b>                             | <b>5,071,950</b>                    | <b>54,569,877</b>            | <b>3</b>                            |
| <b>Fund balance, June 30.....</b>                            | <b>\$ 3,788,628</b>                 | <b>\$ 42,916,623</b>         | <b>\$ -</b>                         |

**Permanent Funds**

| Higher<br>Education<br>Endowment<br>Fund | Vermont<br>Sanitorium<br>Fund | Albert C. Lord<br>Trust Fund | Lumberjack<br>Fund |
|--|-------------------------------|------------------------------|--------------------|
| \$ -                                     | \$ -                          | \$ -                         | \$ -               |
| -  | -                             | -                            | -                  |
| -  | -                             | -                            | -                  |
| -  | -                             | -                            | -                  |
| 634,352                                  | 20,698                        | 18,531                       | 1,016              |
| -  | -                             | -                            | -                  |
| -  | -                             | -                            | -                  |
| -  | -                             | -                            | -                  |
| <b>634,352</b>                           | <b>20,698</b>                 | <b>18,531</b>                | <b>1,016</b>       |
| -  | -                             | -                            | -                  |
| -  | -                             | -                            | -                  |
| -  | 7,507                         | -                            | -                  |
| 477,199                                  | -                             | -                            | -                  |
| -  | -                             | 5,042                        | -                  |
| -  | -                             | -                            | -                  |
| -  | -                             | -                            | -                  |
| <b>477,199</b>                           | <b>7,507</b>                  | <b>5,042</b>                 | <b>0</b>           |
| <b>157,153</b>                           | <b>13,191</b>                 | <b>13,489</b>                | <b>1,016</b>       |
| -  | -                             | -                            | -                  |
| -  | -                             | -                            | -                  |
| -  | -                             | -                            | -                  |
| <b>0</b>                                 | <b>0</b>                      | <b>0</b>                     | <b>0</b>           |
| 157,153                                  | 13,191                        | 13,489                       | 1,016              |
| <b>8,415,002</b>                         | <b>237,845</b>                | <b>219,496</b>               | <b>24,007</b>      |
| <b>\$ 8,572,155</b>                      | <b>\$ 251,036</b>             | <b>\$ 232,985</b>            | <b>\$ 25,023</b>   |

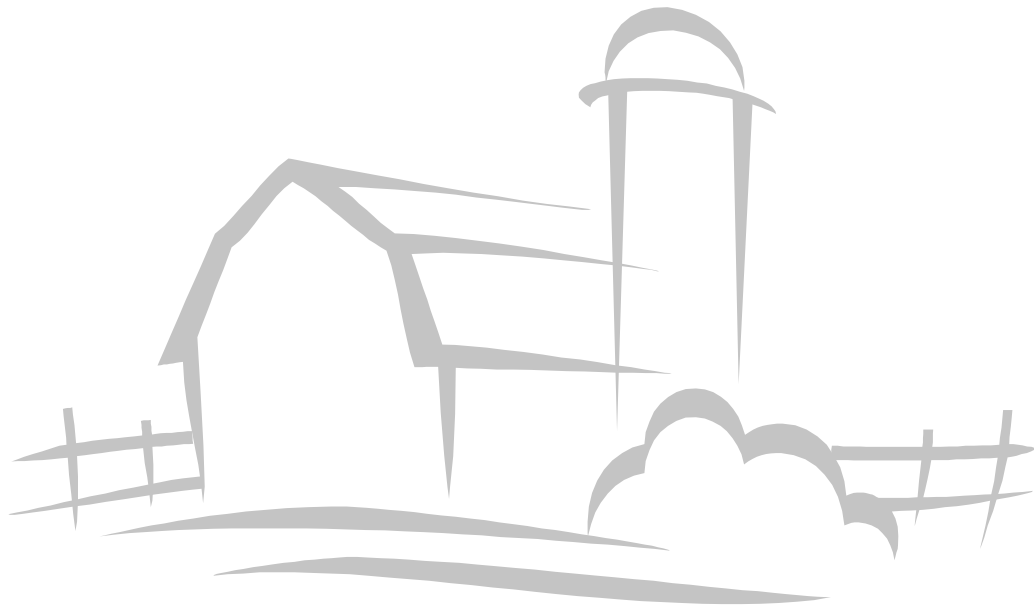
STATE OF VERMONT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

|  | Permanent Funds                        |                                |                         |
|--|--|--------------------------------|-------------------------|
|  | Couching Lion<br>Farm Cemetery<br>Fund | Carrie P.<br>Underwood<br>Fund | Laura H.<br>Morgan Fund |
| <b>REVENUES:</b>   |  |                                |                         |
| Taxes:   |  |                                |                         |
| Motor fuel tax.....  | \$ -                                   | \$ -                           | \$ -                    |
| Earnings of departments:                                     |  |                                |                         |
| Fees.....  | -                                      | -                              | -                       |
| Rents and leases.....  | -                                      | -                              | -                       |
| Federal grants.....  | -                                      | -                              | -                       |
| Fines, forfeits and penalties.....                           | -                                      | -                              | -                       |
| Investment income.....                                       | 385                                    | 1,135                          | 224                     |
| Licenses:  |  |                                |                         |
| Business.....  | -                                      | -                              | -                       |
| Non-business.....  | -                                      | -                              | -                       |
| Special assessments.....                                     | -                                      | -                              | -                       |
| Other revenues.....  | -                                      | -                              | -                       |
| <b>Total revenues.....</b>                                   | <b>385</b>                             | <b>1,135</b>                   | <b>224</b>              |
| <b>EXPENDITURES:</b>   |  |                                |                         |
| General government.....                                      | -                                      | -                              | -                       |
| Protection to persons and property.....                      | -                                      | -                              | -                       |
| Human services.....  | -                                      | -                              | -                       |
| General education.....                                       | -                                      | -                              | -                       |
| Natural resources.....                                       | -                                      | -                              | -                       |
| Commerce and community development.....                      | -                                      | -                              | -                       |
| Transportation.....  | -                                      | -                              | -                       |
| <b>Total expenditures.....</b>                               | <b>0</b>                               | <b>0</b>                       | <b>0</b>                |
| <b>Excess of revenues over<br/>(under) expenditures.....</b> | <b>385</b>                             | <b>1,135</b>                   | <b>224</b>              |
| <b>Other Financing Sources (Uses):</b>                       |  |                                |                         |
| Proceeds from the sale of bonds.....                         | -                                      | -                              | -                       |
| Transfers in.....  | -                                      | -                              | -                       |
| Transfers (out).....   | -                                      | -                              | -                       |
| <b>Total other financing sources (uses).....</b>             | <b>0</b>                               | <b>0</b>                       | <b>0</b>                |
| <b>Net change in fund balances.....</b>                      | <b>385</b>                             | <b>1,135</b>                   | <b>224</b>              |
| <b>Fund balance, July 1 .....</b>                            | <b>19,190</b>                          | <b>14,323</b>                  | <b>2,798</b>            |
| <b>Fund balance, June 30.....</b>                            | <b>\$ 19,575</b>                       | <b>\$ 15,458</b>               | <b>\$ 3,022</b>         |

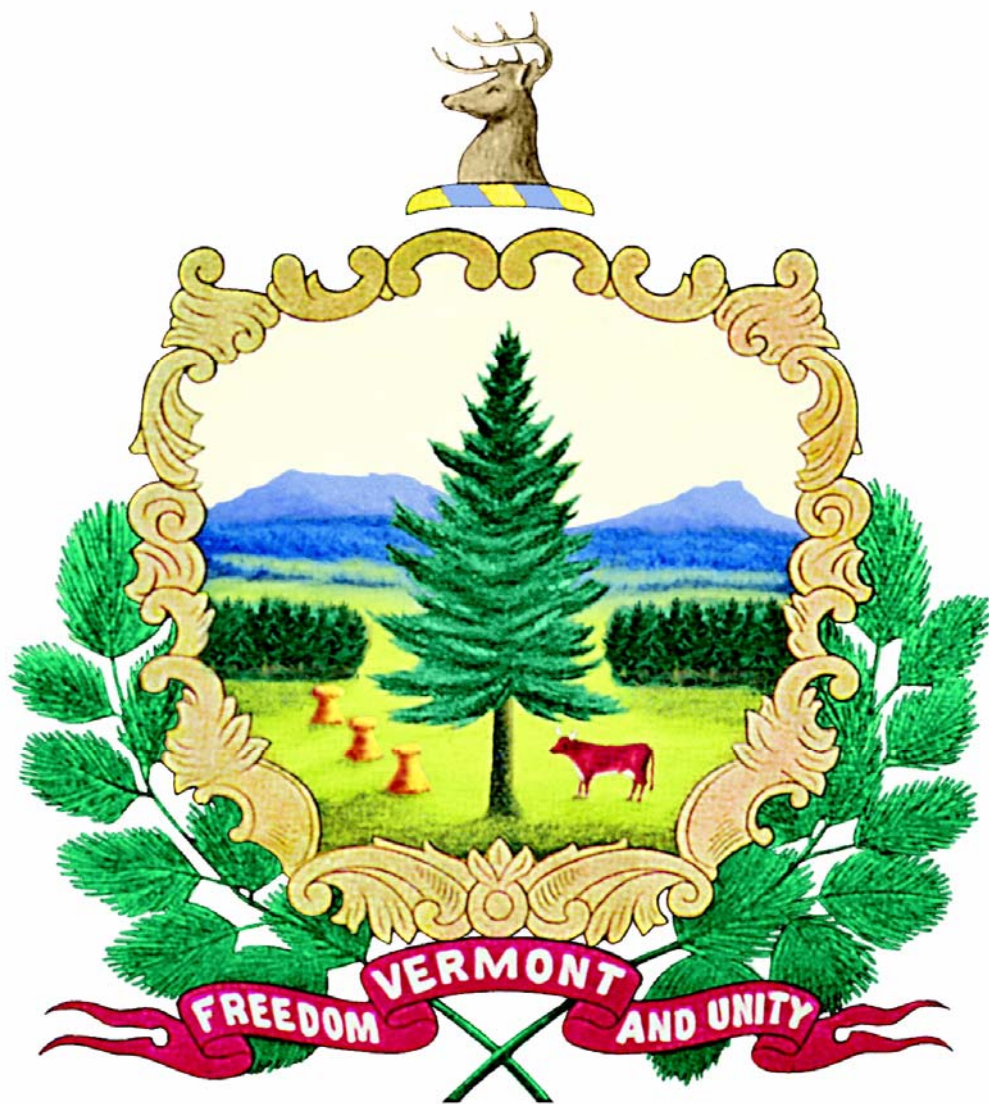


| <u>Permanent Funds</u>                             |                                |  |
|--|--------------------------------|--|
| <u>Bennington<br/>Battle<br/>Monument<br/>Fund</u> | <u>Zenus H. Ellis<br/>Fund</u> | <u>Total Nonmajor<br/>Governmental<br/>Funds</u> |
| \$ -   | \$ -                           | \$ 1,015,426                                     |
| -  | -                              | 231,456  |
| -  | -                              | 66,256   |
| -  | -                              | 4,109,066  |
| -  | -                              | 34,760   |
| 109  | 102                            | 713,891  |
| -  | -                              | 1,865  |
| -  | -                              | 6,088,509  |
| -  | -                              | 19,699   |
| -  | -                              | 450,690  |
| <u>109</u>   | <u>102</u>                     | <u>12,731,618</u>                                |
| -  | -                              | 9,164,326  |
| -  | -                              | 2,161,948  |
| -  | -                              | 2,345,362  |
| -  | -                              | 23,880,138                                       |
| -  | -                              | 16,422,291                                       |
| -  | -                              | 879,810  |
| -  | -                              | 3  |
| <u>0</u>   | <u>0</u>                       | <u>54,853,878</u>                                |
| <u>109</u>   | <u>102</u>                     | <u>(42,122,260)</u>                              |
| -  | -                              | 35,800,000                                       |
| -  | -                              | 370,201  |
| -  | -                              | (6,797,716)                                      |
| <u>0</u>   | <u>0</u>                       | <u>29,372,485</u>                                |
| <u>109</u>   | <u>102</u>                     | <u>(12,749,775)</u>                              |
| <u>1,329</u>                                       | <u>1,243</u>                   | <u>68,577,063</u>                                |
| <u>\$ 1,438</u>                                    | <u>\$ 1,345</u>                | <u>\$ 55,827,288</u>                             |

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*Vermont*



**NONMAJOR  
ENTERPRISE FUNDS**

**STATE OF VERMONT**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR ENTERPRISE FUNDS**  
**June 30, 2003**

|  | <b>Industrial<br/>Homework<br/>Office Fund</b> | <b>Federal<br/>Surplus<br/>Property<br/>Fund</b> |
|--|--|--|
| <b>ASSETS</b>  |  |  |
| <b>Current Assets:</b>   |  |  |
| Cash and cash equivalents.....                                 | \$ 46,302                                      | \$ -   |
| Accrued interest receivable.....                               | -  | -  |
| Accounts receivable (net of allowance for uncollectibles)..... | 24,211   | 5,083  |
| Loans receivable.....  | -  | -  |
| Due from other funds.....                                      | -  | -  |
| Inventories, at cost.....                                      | -  | 907,714  |
| Prepaid expenses.....  | -  | -  |
| <b>Total current assets.....</b>                               | <b>70,513</b>                                  | <b>912,797</b>                                   |
| <b>Restricted and Noncurrent Assets:</b>                       |  |  |
| Cash - subscription reserve fund.....                          | -  | -  |
| Loans receivable.....  | -  | -  |
| Accounts receivable - subscriptions.....                       | -  | -  |
| Imprest cash and change fund - advances.....                   | 1,700  | -  |
| <b>Total restricted &amp; noncurrent assets.....</b>           | <b>1,700</b>                                   | <b>0</b>   |
| <b>Capital Assets:</b>   |  |  |
| Machinery, equipment and buildings.....                        | -  | 13,300   |
| Less accumulated depreciation.....                             | -  | (4,766)  |
| <b>Total capital assets, net of depreciation.....</b>          | <b>0</b>                                       | <b>8,534</b>                                     |
| <b>Total assets.....</b>                                       | <b>72,213</b>                                  | <b>921,331</b>                                   |
| <b>LIABILITIES</b>   |  |  |
| <b>Current Liabilities:</b>                                    |  |  |
| Accounts payable.....  | -  | 7,169  |
| Accrued salaries and benefits.....                             | 5,417  | 4,781  |
| Interfund payable.....   | -  | 242,211  |
| Deferred revenue.....  | -  | 907,714  |
| <b>Total current liabilities.....</b>                          | <b>5,417</b>                                   | <b>1,161,875</b>                                 |
| <b>Liabilities Payable From Restricted Assets:</b>             |  |  |
| Unexpired subscriptions.....                                   | -  | -  |
| Cash advances by state treasurer.....                          | 1,700  | -  |
| <b>Total liabilities payable from restricted assets.....</b>   | <b>1,700</b>                                   | <b>0</b>   |
| <b>Total liabilities.....</b>                                  | <b>7,117</b>                                   | <b>1,161,875</b>                                 |
| <b>NET ASSETS</b>  |  |  |
| Invested in Capital Assets.....                                | -  | 8,534  |
| Unrestricted.....  | 65,096   | (249,078)  |
| <b>Total Net Assets.....</b>                                   | <b>\$ 65,096</b>                               | <b>\$ (240,544)</b>                              |

| <b>Vermont<br/>Life<br/>Magazine<br/>Fund</b> | <b>Municipal<br/>Equipment<br/>Loan<br/>Fund</b> | <b>Vermont<br/>Adaptive<br/>Equipment<br/>Revolving<br/>Fund</b> | <b>Unemployment<br/>Compensation<br/>Contingency<br/>Fund</b> | <b>Total<br/>Nonmajor<br/>Enterprise<br/>Funds</b> |
|---|--|--|---|--|
| \$ -  | \$ 633,124                                       | \$ 324,064   | \$ 150,918  | \$ 1,154,408                                       |
| -   | 20,331   | 1,704  | -   | 22,035   |
| 108,551                                       | -  | 21,815   | -   | 159,660  |
| -   | 1,203,340  | 472,682  | -   | 1,676,022  |
| -   | -  | -  | 28,875  | 28,875   |
| 93,481  | -  | -  | -   | 1,001,195  |
| 123,455                                       | -  | -  | -   | 123,455  |
| <b>325,487</b>                                | <b>1,856,795</b>                                 | <b>820,265</b>   | <b>179,793</b>  | <b>4,165,650</b>                                   |
| 666,859                                       | -  | -  | -   | 666,859  |
| -   | 801,121  | -  | -   | 801,121  |
| 60,734  | -  | -  | -   | 60,734   |
| 1,200   | -  | -  | -   | 2,900  |
| <b>728,793</b>                                | <b>801,121</b>                                   | <b>0</b>   | <b>0</b>  | <b>1,531,614</b>                                   |
| 65,873  | -  | -  | -   | 79,173   |
| (65,873)                                      | -  | -  | -   | (70,639)   |
| <b>0</b>                                      | <b>0</b>   | <b>0</b>   | <b>0</b>  | <b>8,534</b>                                       |
| <b>1,054,280</b>                              | <b>2,657,916</b>                                 | <b>820,265</b>   | <b>179,793</b>  | <b>5,705,798</b>                                   |
| 22,636  | -  | 18,500   | -   | 48,305   |
| 63,332  | -  | -  | -   | 73,530   |
| 182,811                                       | -  | -  | -   | 425,022  |
| 38,366  | -  | -  | -   | 946,080  |
| <b>307,145</b>                                | <b>0</b>   | <b>18,500</b>  | <b>0</b>  | <b>1,492,937</b>                                   |
| 666,859                                       | -  | -  | -   | 666,859  |
| 1,200   | -  | -  | -   | 2,900  |
| <b>668,059</b>                                | <b>0</b>   | <b>0</b>   | <b>0</b>  | <b>669,759</b>                                     |
| <b>975,204</b>                                | <b>0</b>   | <b>18,500</b>  | <b>0</b>  | <b>2,162,696</b>                                   |
| -   | -  | -  | -   | 8,534  |
| 79,076  | 2,657,916  | 801,765  | 179,793   | 3,534,568  |
| <b>\$ 79,076</b>                              | <b>\$ 2,657,916</b>                              | <b>\$ 801,765</b>  | <b>\$ 179,793</b>   | <b>\$ 3,543,102</b>                                |

**STATE OF VERMONT**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSET**  
**NONMAJOR ENTERPRISE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | <b>Industrial<br/>Homework<br/>Office Fund</b> | <b>Federal<br/>Surplus<br/>Property<br/>Fund</b> |
|---|--|--|
| <b>Operating Revenues</b>                           |  |  |
| Charges for sales and services.....                 | \$ 143,491                                     | \$ 49,600  |
| Advertising revenue.....                            | -  | -  |
| Federal donated property.....                       | -  | 559,263  |
| Other operating revenues.....                       | -  | -  |
| <b>Total operating revenues.....</b>                | <b>143,491</b>                                 | <b>608,863</b>                                   |
| <b>Operating Expenses</b>                           |  |  |
| Cost of sales and services.....                     | -  | 592,840  |
| Salaries and wages.....                             | 140,444  | 54,888   |
| Transportation.....                                 | -  | -  |
| Depreciation.....                                   | -  | 4,766  |
| Rentals.....  | -  | 30,402   |
| Utilities.....                                      | -  | 922  |
| Promotions and advertising.....                     | -  | -  |
| Administration.....                                 | -  | 23,280   |
| Supplies.....                                       | -  | 791  |
| Distribution and postage.....                       | -  | 112  |
| Travel.....   | -  | 2,193  |
| Loss on bad debts.....                              | -  | -  |
| Other operating expenses.....                       | -  | (10,157)   |
| <b>Total operating expenses.....</b>                | <b>140,444</b>                                 | <b>700,037</b>                                   |
| <b>Operating income (loss).....</b>                 | <b>3,047</b>                                   | <b>(91,174)</b>                                  |
| <b>Non-Operating Revenues (Expenses)</b>            |  |  |
| Investment income.....                              | -  | -  |
| <b>Total non-operating revenues (expenses).....</b> | <b>0</b>                                       | <b>0</b>   |
| <b>Income (loss) before transfers.....</b>          | <b>3,047</b>                                   | <b>(91,174)</b>                                  |
| <b>Transfers</b>                                    |  |  |
| Transfer in.....                                    | -  | -  |
| Transfer (out).....                                 | -  | -  |
| <b>Total transfers in (out).....</b>                | <b>0</b>                                       | <b>0</b>   |
| <b>Changes in net assets.....</b>                   | <b>3,047</b>                                   | <b>(91,174)</b>                                  |
| <b>Total net assets July 1, restated.....</b>       | <b>62,049</b>                                  | <b>(149,370)</b>                                 |
| <b>Total net assets June 30.....</b>                | <b>\$ 65,096</b>                               | <b>\$ (240,544)</b>                              |

| Vermont Life Magazine Fund | Municipal Equipment Loan Fund | Vermont Adaptive Equipment Revolving Fund | Unemployment Compensation Contingency Fund | Total Nonmajor Enterprise Funds |
|----------------------------|-------------------------------|---|--|---------------------------------|
| \$ 1,498,785               | \$ -                          | \$ -                                      | \$ -                                       | \$ 1,691,876                    |
| 486,239                    | -                             | -   | -  | 486,239                         |
| -                          | -                             | -   | -  | 559,263                         |
| 84,419                     | 53,217                        | 45,062                                    | -  | 182,698                         |
| <b>2,069,443</b>           | <b>53,217</b>                 | <b>45,062</b>                             | <b>0</b>                                   | <b>2,920,076</b>                |
| 595,166                    | -                             | -   | -  | 1,188,006                       |
| 673,325                    | -                             | -   | -  | 868,657                         |
| 32,936                     | -                             | -   | -  | 32,936                          |
| -                          | -                             | -   | -  | 4,766                           |
| -                          | -                             | -   | -  | 30,402                          |
| -                          | -                             | -   | -  | 922                             |
| 317,252                    | -                             | -   | -  | 317,252                         |
| 176,225                    | -                             | -   | -  | 199,505                         |
| 20,082                     | -                             | -   | -  | 20,873                          |
| 217,217                    | -                             | -   | -  | 217,329                         |
| 13,984                     | -                             | -   | -  | 16,177                          |
| (5,567)                    | -                             | 13,405                                    | -  | 7,838                           |
| 38,054                     | 5,662                         | -   | 84,475                                     | 118,034                         |
| <b>2,078,674</b>           | <b>5,662</b>                  | <b>13,405</b>                             | <b>84,475</b>                              | <b>3,022,697</b>                |
| <b>(9,231)</b>             | <b>47,555</b>                 | <b>31,657</b>                             | <b>(84,475)</b>                            | <b>(102,621)</b>                |
| 5,029                      | 4,875                         | 2,470                                     | 2,085                                      | 14,459                          |
| <b>5,029</b>               | <b>4,875</b>                  | <b>2,470</b>                              | <b>2,085</b>                               | <b>14,459</b>                   |
| <b>(4,202)</b>             | <b>52,430</b>                 | <b>34,127</b>                             | <b>(82,390)</b>                            | <b>(88,162)</b>                 |
| -                          | -                             | -   | 318,075                                    | 318,075                         |
| -                          | -                             | -   | (247,497)                                  | (247,497)                       |
| <b>0</b>                   | <b>0</b>                      | <b>0</b>                                  | <b>70,578</b>                              | <b>70,578</b>                   |
| <b>(4,202)</b>             | <b>52,430</b>                 | <b>34,127</b>                             | <b>(11,812)</b>                            | <b>(17,584)</b>                 |
| <b>83,278</b>              | <b>2,605,486</b>              | <b>767,638</b>                            | <b>191,605</b>                             | <b>3,560,686</b>                |
| <b>\$ 79,076</b>           | <b>\$ 2,657,916</b>           | <b>\$ 801,765</b>                         | <b>\$ 179,793</b>                          | <b>\$ 3,543,102</b>             |

**STATE OF VERMONT  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

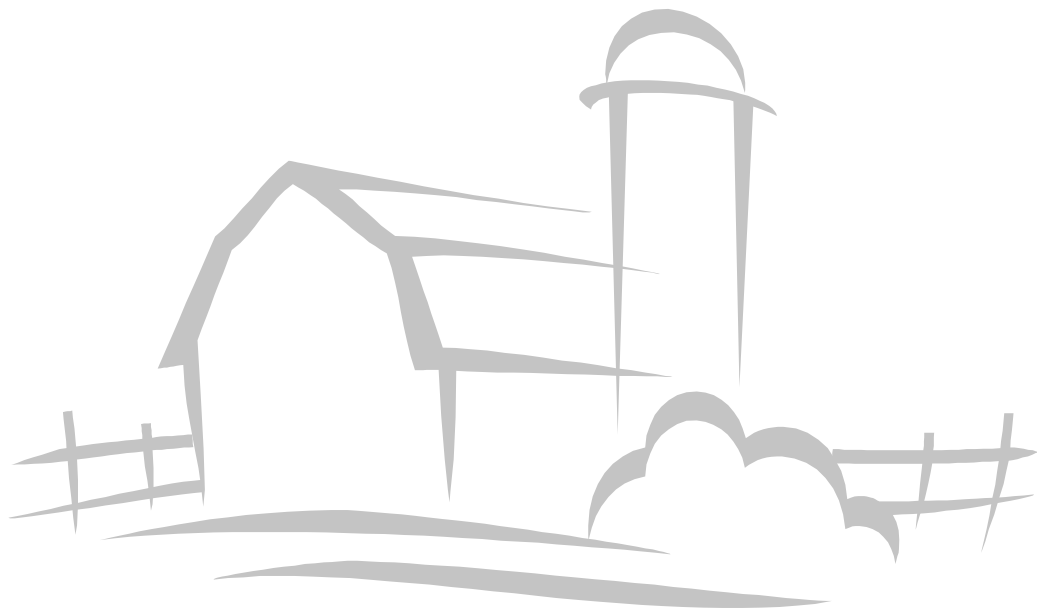
|  | <b>Industrial<br/>Homework<br/>Office Fund</b> | <b>Federal<br/>Surplus<br/>Property<br/>Fund</b> | <b>Vermont Life<br/>Magazine<br/>Fund</b> |
|--|--|--|---|
| <b>Cash Flows from Operating Activities:</b>   |  |  |   |
| Cash received from customers.....  | \$ 144,825                                     | \$ 80,941  | \$ 2,045,205                              |
| Cash paid to suppliers for goods and services.....   | -  | (80,194)   | (1,477,267)                               |
| Loans received (made).....   | -  | -  | -   |
| Cash paid to employees for services.....   | (141,390)                                      | (53,244)   | (666,078)                                 |
| Other operating revenues (expenses).....   | -  | -  | 84,419                                    |
| <b>Net cash provided (used) by operating activities.....</b>                                       | <b><u>3,435</u></b>                            | <b><u>(52,497)</u></b>                           | <b><u>(13,721)</u></b>                    |
| <b>Cash Flows from Noncapital Financing Activities:</b>  |  |  |   |
| Operating/equity transfers.....  | -  | -  | -   |
| Interfund loans and advances.....  | -  | 65,797   | (14,423)                                  |
| <b>Net cash (used) by noncapital financing activities.....</b>                                     | <b><u>0</u></b>                                | <b><u>65,797</u></b>                             | <b><u>(14,423)</u></b>                    |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                                   |  |  |   |
| Acquisition and construction of capital assets.....  | -  | (13,300)   | -   |
| <b>Net cash provided (used) by capital<br/>and related financing activities.....</b>               | <b><u>0</u></b>                                | <b><u>(13,300)</u></b>                           | <b><u>0</u></b>                           |
| <b>Cash Flows from Investing Activities:</b>   |  |  |   |
| Interest earned on investments.....  | -  | -  | 5,029                                     |
| Interest & penalties received (paid).....  | -  | -  | -   |
| Excess cash transferred.....   | -  | -  | -   |
| <b>Net cash provided (used) by investing activities.....</b>                                       | <b><u>0</u></b>                                | <b><u>0</u></b>                                  | <b><u>5,029</u></b>                       |
| <b>Net increase (Decrease) in cash and cash equivalents.....</b>                                   | <b>3,435</b>                                   | <b>0</b>   | <b>(23,115)</b>                           |
| <b>Cash and cash equivalents at July 1.....</b>  | <b><u>44,567</u></b>                           | <b><u>-</u></b>                                  | <b><u>691,174</u></b>                     |
| <b>Cash and cash equivalents at June 30 (see note below).....</b>                                  | <b><u>\$ 48,002</u></b>                        | <b><u>\$ -</u></b>                               | <b><u>\$ 668,059</u></b>                  |
| <b>Reconciliation of Operating Income to Net</b>   |  |  |   |
| Operating income (loss).....   | \$ 3,047                                       | \$ (91,174)                                      | \$ (9,231)                                |
| <b>Adjustments to reconcile operating income to<br/>Net cash provided by operating activities:</b> |  |  |   |
| Depreciation.....  | -  | 4,766  | -   |
| (Increase) decrease in accounts/taxes receivable.....  | 1,334  | 31,341   | 70,620                                    |
| (Increase) decrease in loans receivable.....   | -  | -  | -   |
| (Increase) decrease in accrued interest receivable.....  | -  | -  | -   |
| (Increase) decrease in inventories.....  | -  | (100,552)  | (5,685)                                   |
| (Increase) decrease in prepaid expenses.....   | -  | -  | 22,581                                    |
| Increase (decrease) in accounts payable.....   | -  | 2,907  | (83,665)                                  |
| Increase (decrease) in accrued salaries and benefits.....  | (946)  | (337)  | 7,247                                     |
| Increase (decrease) in deferred revenue.....   | -  | 100,552  | 7,527                                     |
| Increase (decrease) in subscription reserves.....  | -  | -  | (23,115)                                  |
| <b>Total adjustments.....</b>  | <b><u>388</u></b>                              | <b><u>38,677</u></b>                             | <b><u>(4,490)</u></b>                     |
| <b>Net cash provided (used) by operating activities.....</b>                                       | <b><u>\$ 3,435</u></b>                         | <b><u>\$ (52,497)</u></b>                        | <b><u>\$ (13,721)</u></b>                 |

NOTE: Total cash/cash equivalents at June 30 on the cash flow statement is equal to cash/cash equivalents, cash-subscription reserve fund, and Imprest cash on the Statement of Net Assets.

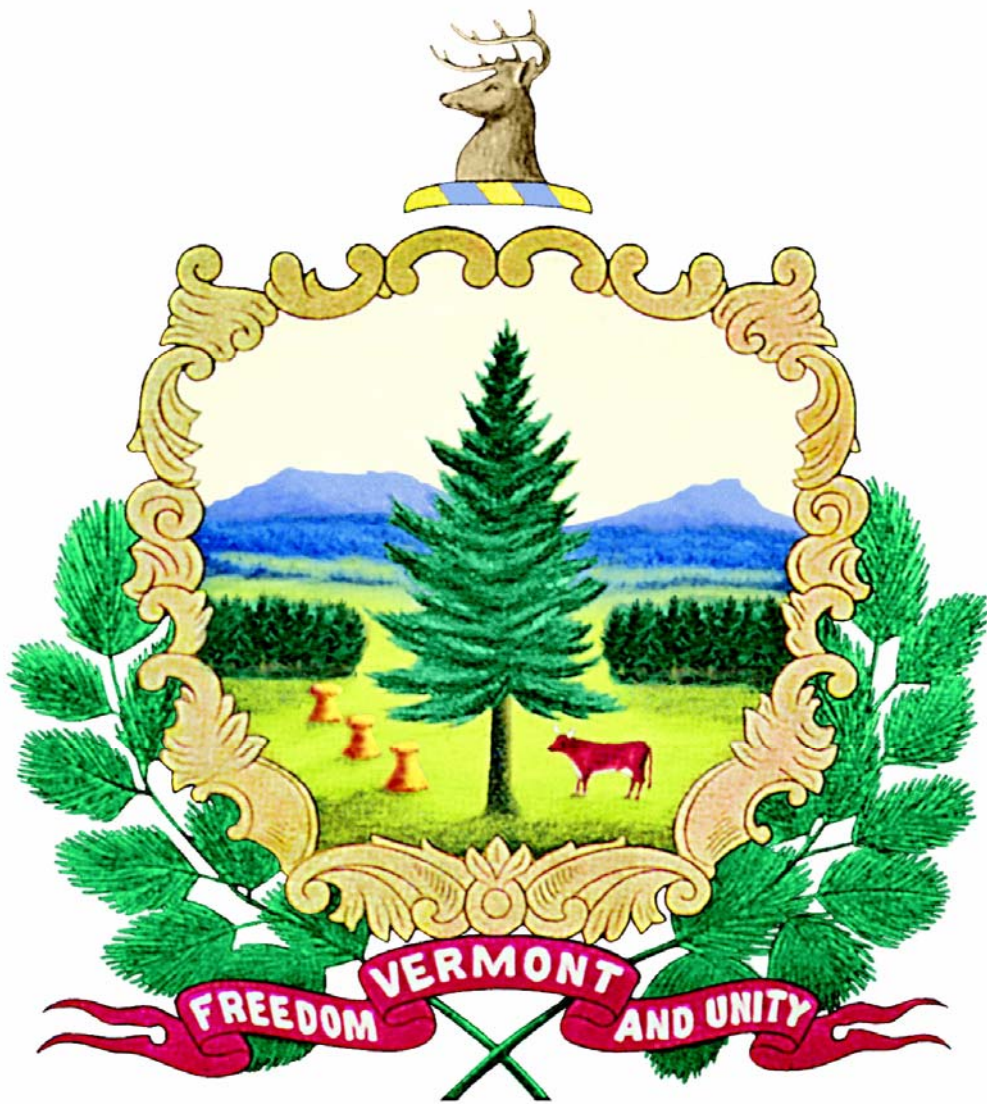


| <b>Municipal<br/>Equipment<br/>Loan<br/>Fund</b> | <b>Adaptive<br/>Equipment<br/>Revolving<br/>Fund</b> | <b>Unemployment<br/>Compensation<br/>Contingency<br/>Fund</b> | <b>Total<br/>Nonmajor<br/>Enterprise<br/>Funds</b> |
|--|--|---|--|
| \$ 988,343                                       | \$ 274,300   | \$ -  | \$ 3,533,614                                       |
| (782,291)  | (129,877)  | -   | (2,469,629)  |
| -  | 51,260   | -   | 51,260   |
| -  | -  | -   | (860,712)  |
| 35,746   | -  | (84,475)  | 35,690   |
| <b>241,798</b>                                   | <b>195,683</b>                                       | <b>(84,475)</b>   | <b>290,223</b>                                     |
| -  | -  | -   | 0  |
| -  | -  | -   | 51,374   |
| <b>0</b>   | <b>0</b>   | <b>0</b>  | <b>51,374</b>                                      |
| -  | -  | -   | (13,300)   |
| <b>0</b>   | <b>0</b>   | <b>0</b>  | <b>(13,300)</b>                                    |
| 4,875  | 2,470  | 2,085   | 14,459   |
| -  | -  | 329,057   | 329,057  |
| -  | -  | (247,497)   | (247,497)  |
| <b>4,875</b>                                     | <b>2,470</b>   | <b>83,645</b>   | <b>96,019</b>                                      |
| 246,673  | 198,153  | (830)   | 424,316  |
| 386,451  | 125,911  | 151,748   | 1,399,851  |
| <b>\$ 633,124</b>                                | <b>\$ 324,064</b>                                    | <b>\$ 150,918</b>   | <b>\$ 1,824,167</b>                                |
| \$ 47,555  | \$ 31,657  | \$ (84,475)   | \$ (102,621)                                       |
| -  | -  | -   | 4,766  |
| -  | 15,119   | -   | 118,414  |
| 206,053  | 128,576  | -   | 334,629  |
| (11,810)   | 2,231  | -   | (9,579)  |
| -  | -  | -   | (106,237)  |
| -  | -  | -   | 22,581   |
| -  | 18,100   | -   | (62,658)   |
| -  | -  | -   | 5,964  |
| -  | -  | -   | 108,079  |
| -  | -  | -   | (23,115)   |
| <b>194,243</b>                                   | <b>164,026</b>                                       | <b>-</b>  | <b>392,844</b>                                     |
| <b>\$ 241,798</b>                                | <b>\$ 195,683</b>                                    | <b>\$ (84,475)</b>  | <b>\$ 290,223</b>                                  |

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*Vermont*



***INTERNAL SERVICE FUNDS***

**STATE OF VERMONT  
COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICE FUNDS  
JUNE 30, 2003**

|   | <u>Highway<br/>Garage<br/>Fund</u> | <u>Offender<br/>Work<br/>Programs</u> | <u>Single<br/>Audit<br/>Revolving<br/>Fund</u> | <u>Financial &amp; HR<br/>Information<br/>Fund</u> |
|---|------------------------------------|---------------------------------------|--|--|
| <b>ASSETS</b>                                       |                                    |                                       |  |  |
| Current assets:                                     |                                    |                                       |  |  |
| Cash and cash equivalents.....                      | \$ -                               | \$ -                                  | \$ 108,452                                     | \$ -   |
| Accounts receivable.....                            | 14,655                             | 567,734                               | 7,882  | 99,388   |
| Due from other funds.....                           | -                                  | -                                     | 38   | -  |
| Inventories, at cost.....                           | 1,002,335                          | 564,330                               | -  | -  |
| Prepaid expenses.....                               | 18,634                             | -                                     | -  | -  |
| <b>Total current assets.....</b>                    | <b>1,035,624</b>                   | <b>1,132,064</b>                      | <b>116,372</b>                                 | <b>99,388</b>                                      |
| Restricted and Other Assets:                        |                                    |                                       |  |  |
| Imprest fund-advances from state treasurer.....     | -                                  | 15,100                                | -  | -  |
| <b>Total restricted and other assets.....</b>       | <b>0</b>                           | <b>15,100</b>                         | <b>0</b>                                       | <b>0</b>   |
| Capital Assets:                                     |                                    |                                       |  |  |
| Machinery, equipment and buildings.....             | 38,675,699                         | 1,955,697                             | -  | -  |
| Accumulated depreciation.....                       | (18,221,814)                       | (1,369,708)                           | -  | -  |
| Net machinery, equipment and buildings.....         | 20,453,885                         | 585,989                               | 0  | 0  |
| Construction in process.....                        | -                                  | -                                     | -  | -  |
| Land.....   | 26,156                             | -                                     | -  | -  |
| <b>Total capital assets.....</b>                    | <b>20,480,041</b>                  | <b>585,989</b>                        | <b>0</b>                                       | <b>0</b>   |
| <b>Total assets.....</b>                            | <b>21,515,665</b>                  | <b>1,733,153</b>                      | <b>116,372</b>                                 | <b>99,388</b>                                      |
| <b>LIABILITIES</b>                                  |                                    |                                       |  |  |
| Current Liabilities:                                |                                    |                                       |  |  |
| Accounts payable.....                               | 103,094                            | 241,018                               | -  | 64,204   |
| Claims payable.....                                 | -                                  | -                                     | -  | -  |
| Deferred revenue.....                               | -                                  | -                                     | -  | -  |
| Due to other funds.....                             | -                                  | -                                     | -  | -  |
| Interfund payable.....                              | 365,121                            | 350,445                               | -  | 307,559  |
| Accrued salaries and benefits.....                  | 192,800                            | 106,576                               | -  | 287,322  |
| <b>Total current liabilities.....</b>               | <b>661,015</b>                     | <b>698,039</b>                        | <b>0</b>                                       | <b>659,085</b>                                     |
| Liabilities Payable from Restricted Funds:          |                                    |                                       |  |  |
| Due to state treasurer - imprest fund advances..... | -                                  | 15,100                                | -  | -  |
| <b>Total liabilities.....</b>                       | <b>661,015</b>                     | <b>713,139</b>                        | <b>0</b>                                       | <b>659,085</b>                                     |
| <b>NET ASSETS</b>                                   |                                    |                                       |  |  |
| Invested in capital assets.....                     | 20,480,041                         | 585,989                               | -  | -  |
| Unrestricted (deficit).....                         | 374,609                            | 434,025                               | 116,372  | (559,697)  |
| <b>Total net assets.....</b>                        | <b>\$ 20,854,650</b>               | <b>\$ 1,020,014</b>                   | <b>\$ 116,372</b>                              | <b>\$ (559,697)</b>                                |

| <b>Communcations<br/>&amp;<br/>Information<br/>Technology</b> | <b>GOVNET<br/>Fund</b> | <b>Supply<br/>Center<br/>Fund</b> | <b>Copy<br/>Center<br/>Fund</b> | <b>Postage<br/>Fund</b> | <b>Facilities<br/>Operations<br/>Fund</b> | <b>Property<br/>Management<br/>Fund</b> |
|---|------------------------|-----------------------------------|---------------------------------|-------------------------|---|---|
| \$ -  | \$ -                   | \$ -                              | \$ -                            | \$ -                    | \$ -                                      | \$ -                                    |
| 2,595,502   | 29,647                 | 676,490                           | 616,950                         | 387,862                 | 1,337,469                                 | 448,670                                 |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 168,865   | -                      | 256,126                           | 43,416                          | 957,643                 | -   | -                                       |
| 372,416   | -                      | -                                 | 22,758                          | 49,964                  | -   | 457,717                                 |
| <b>3,136,783</b>  | <b>29,647</b>          | <b>932,616</b>                    | <b>683,124</b>                  | <b>1,395,469</b>        | <b>1,337,469</b>                          | <b>906,387</b>                          |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| <b>0</b>  | <b>0</b>               | <b>0</b>                          | <b>0</b>                        | <b>0</b>                | <b>0</b>                                  | <b>0</b>                                |
| 2,001,787   | 1,186,224              | 129,645                           | 3,331,424                       | 543,587                 | 1,321,181                                 | 38,072                                  |
| (1,514,806)   | (962,112)              | (84,510)                          | (1,048,597)                     | (418,270)               | (905,888)                                 | (17,194)                                |
| 486,981   | 224,112                | 45,135                            | 2,282,827                       | 125,317                 | 415,293                                   | 20,878                                  |
| 412,539   | -                      | -                                 | -                               | -                       | -   | -                                       |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| <b>899,520</b>  | <b>224,112</b>         | <b>45,135</b>                     | <b>2,282,827</b>                | <b>125,317</b>          | <b>415,293</b>                            | <b>20,878</b>                           |
| <b>4,036,303</b>  | <b>253,759</b>         | <b>977,751</b>                    | <b>2,965,951</b>                | <b>1,520,786</b>        | <b>1,752,762</b>                          | <b>927,265</b>                          |
| 495,620   | 62,427                 | 110,030                           | 98,708                          | 4,645                   | 1,220,219                                 | 826,664                                 |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 156,540   | -                      | -                                 | -                               | -                       | -   | -                                       |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 3,981,090   | 504,592                | 368,540                           | 2,568,186                       | 1,409,455               | 8,346,138                                 | 4,201,207                               |
| 234,914   | 45,690                 | 14,483                            | 53,057                          | 48,325                  | 906,952                                   | 69,961                                  |
| <b>4,868,164</b>  | <b>612,709</b>         | <b>493,053</b>                    | <b>2,719,951</b>                | <b>1,462,425</b>        | <b>10,473,309</b>                         | <b>5,097,832</b>                        |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| <b>4,868,164</b>  | <b>612,709</b>         | <b>493,053</b>                    | <b>2,719,951</b>                | <b>1,462,425</b>        | <b>10,473,309</b>                         | <b>5,097,832</b>                        |
| 899,520   | 224,112                | 45,135                            | 2,282,827                       | 125,317                 | 415,293                                   | 20,878                                  |
| (1,731,381)   | (583,062)              | 439,563                           | (2,036,827)                     | (66,956)                | (9,135,840)                               | (4,191,445)                             |
| <b>\$ (831,861)</b>   | <b>\$ (358,950)</b>    | <b>\$ 484,698</b>                 | <b>\$ 246,000</b>               | <b>\$ 58,361</b>        | <b>\$ (8,720,547)</b>                     | <b>\$ (4,170,567)</b>                   |

Continued on next page---->

**STATE OF VERMONT  
COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICE FUNDS  
June 30, 2003**

|   | <u>Equipment<br/>Revolving<br/>Fund</u> | <u>State<br/>Surplus<br/>Property<br/>Fund</u> | <u>State<br/>Liability<br/>Insurance<br/>Fund</u> | <u>Risk<br/>Management<br/>All -Other<br/>Plan</u> |
|---|---|--|---|--|
| <b>ASSETS</b>                                       |   |  |   |  |
| Current assets:                                     |   |  |   |  |
| Cash and cash equivalents.....                      | \$ -                                    | \$ 129,589                                     | \$ 7,805,465                                      | \$ -   |
| Accounts receivable.....                            | 1,823,682                               | -  | 83,742  | 179,469  |
| Due from other funds.....                           | -                                       | -  | 70,587  | -  |
| Inventories, at cost.....                           | -                                       | 10,400   | -   | -  |
| Prepaid expenses.....                               | -                                       | -  | -   | -  |
| <b>Total current assets.....</b>                    | <b>1,823,682</b>                        | <b>139,989</b>                                 | <b>7,959,794</b>                                  | <b>179,469</b>                                     |
| Restricted and Other Assets:                        |   |  |   |  |
| Imprest fund-advances from state treasurer.....     | -                                       | -  | -   | -  |
| <b>Total restricted and other assets.....</b>       | <b>0</b>                                | <b>0</b>                                       | <b>0</b>  | <b>0</b>   |
| Capital Assets:                                     |   |  |   |  |
| Machinery, equipment and buildings.....             | -                                       | 8,800  | 6,492   | 1,623  |
| Accumulated depreciation.....                       | -                                       | (1,146)  | (90)  | (23)   |
| Net machinery, equipment and buildings.....         | 0                                       | 7,654  | 6,402   | 1,600  |
| Construction in process.....                        | -                                       | -  | -   | -  |
| Land.....   | -                                       | -  | -   | -  |
| <b>Total capital assets.....</b>                    | <b>0</b>                                | <b>7,654</b>                                   | <b>6,402</b>                                      | <b>1,600</b>                                       |
| <b>Total assets.....</b>                            | <b>1,823,682</b>                        | <b>147,643</b>                                 | <b>7,966,196</b>                                  | <b>181,069</b>                                     |
| <b>LIABILITIES</b>                                  |   |  |   |  |
| Current Liabilities:                                |   |  |   |  |
| Accounts payable.....                               | 53,928                                  | 3,620  | 41,157  | 31,019   |
| Claims payable.....                                 | -                                       | -  | 6,709,592   | -  |
| Deferred revenue.....                               | -                                       | -  | -   | -  |
| Due to other funds.....                             | 1,478                                   | -  | 4,258   | 3,164  |
| Interfund payable.....                              | 1,768,276                               | -  | -   | 124,863  |
| Accrued salaries and benefits.....                  | -                                       | 5,009  | -   | -  |
| <b>Total current liabilities.....</b>               | <b>1,823,682</b>                        | <b>8,629</b>                                   | <b>6,755,007</b>                                  | <b>159,046</b>                                     |
| Liabilities Payable from Restricted Funds:          |   |  |   |  |
| Due to state treasurer - imprest fund advances..... | -                                       | -  | -   | -  |
| <b>Total liabilities.....</b>                       | <b>1,823,682</b>                        | <b>8,629</b>                                   | <b>6,755,007</b>                                  | <b>159,046</b>                                     |
| <b>NET ASSETS</b>                                   |   |  |   |  |
| Invested in capital assets.....                     | -                                       | 7,654  | 6,402   | 1,600  |
| Unrestricted (deficit).....                         | -                                       | 131,360  | 1,204,787   | 20,423   |
| <b>Total net assets.....</b>                        | <b>\$ 0</b>                             | <b>\$ 139,014</b>                              | <b>\$ 1,211,189</b>                               | <b>\$ 22,023</b>                                   |

| <u>Workers' Compensation Plan</u> | <u>Medical Insurance Fund</u> | <u>Dental Insurance Fund</u> | <u>Life Insurance Fund</u> | <u>Long-Term Disability Fund</u> | <u>Employees' Assistance Fund</u> | <u>Total Internal Service Funds</u> |
|-----------------------------------|-------------------------------|------------------------------|----------------------------|----------------------------------|-----------------------------------|-------------------------------------|
| \$ 8,381,870                      | \$ 22,461,984                 | \$ 510,519                   | \$ 857,266                 | \$ 18,003                        | \$ 36,642                         | \$ 40,309,790                       |
| 203,874                           | 2,494,809                     | 209,627                      | 57,903                     | 5,978                            | 8,647                             | 11,849,980                          |
| 7,422                             | -                             | -                            | -                          | -                                | -                                 | 78,047                              |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 3,003,115                           |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 921,489                             |
| <b>8,593,166</b>                  | <b>24,956,793</b>             | <b>720,146</b>               | <b>915,169</b>             | <b>23,981</b>                    | <b>45,289</b>                     | <b>56,162,421</b>                   |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 15,100                              |
| <b>0</b>                          | <b>0</b>                      | <b>0</b>                     | <b>0</b>                   | <b>0</b>                         | <b>0</b>                          | <b>15,100</b>                       |
| 24,344                            | -                             | -                            | -                          | -                                | -                                 | 49,224,575                          |
| (338)                             | -                             | -                            | -                          | -                                | -                                 | (24,544,496)                        |
| 24,006                            | 0                             | 0                            | 0                          | 0                                | 0                                 | 24,680,079                          |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 412,539                             |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 26,156                              |
| <b>24,006</b>                     | <b>0</b>                      | <b>0</b>                     | <b>0</b>                   | <b>0</b>                         | <b>0</b>                          | <b>25,118,774</b>                   |
| <b>8,617,172</b>                  | <b>24,956,793</b>             | <b>720,146</b>               | <b>915,169</b>             | <b>23,981</b>                    | <b>45,289</b>                     | <b>81,296,295</b>                   |
| 177,571                           | 767,875                       | 22,515                       | 460,822                    | 12,761                           | 18,268                            | 4,816,165                           |
| 15,488,977                        | 10,859,261                    | 346,585                      | -                          | -                                | -                                 | 33,404,415                          |
| -                                 | 1,157,195                     | -                            | -                          | -                                | -                                 | 1,313,735                           |
| 104,594                           | -                             | -                            | -                          | -                                | -                                 | 113,494                             |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 24,295,472                          |
| 64,141                            | 43,583                        | 2,757                        | 919                        | -                                | -                                 | 2,076,489                           |
| <b>15,835,283</b>                 | <b>12,827,914</b>             | <b>371,857</b>               | <b>461,741</b>             | <b>12,761</b>                    | <b>18,268</b>                     | <b>66,019,770</b>                   |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 15,100                              |
| <b>15,835,283</b>                 | <b>12,827,914</b>             | <b>371,857</b>               | <b>461,741</b>             | <b>12,761</b>                    | <b>18,268</b>                     | <b>66,034,870</b>                   |
| 24,006                            | -                             | -                            | -                          | -                                | -                                 | 25,118,774                          |
| (7,242,117)                       | 12,128,879                    | 348,289                      | 453,428                    | 11,220                           | 27,021                            | (9,857,349)                         |
| <b>\$ (7,218,111)</b>             | <b>\$ 12,128,879</b>          | <b>\$ 348,289</b>            | <b>\$ 453,428</b>          | <b>\$ 11,220</b>                 | <b>\$ 27,021</b>                  | <b>\$ 15,261,425</b>                |

**STATE OF VERMONT  
COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | Highway<br>Garage<br>Fund | Offender<br>Work<br>Programs | Single<br>Audit<br>Revolving<br>Fund | Financial & HR<br>Information<br>Fund |
|--|---------------------------|------------------------------|--------------------------------------|---------------------------------------|
| <b>Operating Revenues:</b>                                       |                           |                              |                                      |                                       |
| Charges for sales and services.....                              | \$ 8,991,478              | \$ 2,967,656                 | \$ 1,015,773                         | \$ 3,120,123                          |
| Rental income.....   | 178,402                   | -                            | -                                    | -                                     |
| Other operating revenues.....                                    | 32,630                    | 4,479                        | -                                    | -                                     |
| <b>Total operating revenues.....</b>                             | <b>9,202,510</b>          | <b>2,972,135</b>             | <b>1,015,773</b>                     | <b>3,120,123</b>                      |
| <b>Operating Expenses:</b>                                       |                           |                              |                                      |                                       |
| Cost of sales and services.....                                  | 4,863,574                 | 1,367,363                    | 937,961                              | -                                     |
| Claims expense.....  | -                         | -                            | -                                    | -                                     |
| Salaries and benefits.....                                       | 473,372                   | 1,113,739                    | -                                    | 2,417,212                             |
| Supplies and parts.....  | -                         | 42,646                       | -                                    | 10,730                                |
| Data processing charges.....                                     | -                         | -                            | -                                    | 18,256                                |
| Transportation.....  | -                         | -                            | -                                    | 9,602                                 |
| Telephone/telegraph.....   | -                         | -                            | -                                    | 45,674                                |
| Postage.....   | -                         | -                            | -                                    | 2,725                                 |
| Printing and duplicating.....                                    | -                         | -                            | -                                    | 5,172                                 |
| Rental of data processing equipment.....                         | -                         | -                            | -                                    | -                                     |
| Other equipment rentals.....                                     | -                         | -                            | -                                    | 468                                   |
| Equipment purchased for agencies.....                            | -                         | -                            | -                                    | 2,947                                 |
| Repairs and maintenance.....                                     | 974,935                   | -                            | -                                    | 828,171                               |
| Administrative services costs.....                               | -                         | -                            | -                                    | -                                     |
| Operating overhead.....  | 429,248                   | -                            | -                                    | -                                     |
| Office rent.....   | -                         | -                            | -                                    | 83,268                                |
| Depreciation.....  | 3,103,170                 | 55,108                       | -                                    | -                                     |
| Contractual fees.....  | -                         | -                            | -                                    | 217,329                               |
| Insurance premium expense.....                                   | -                         | -                            | -                                    | 3,591                                 |
| Other operating expenses.....                                    | 36,620                    | 258,704                      | -                                    | 9,943                                 |
| <b>Total operating expenses.....</b>                             | <b>9,880,919</b>          | <b>2,837,560</b>             | <b>937,961</b>                       | <b>3,655,088</b>                      |
| <b>Operating Income(Loss).....</b>                               | <b>(678,409)</b>          | <b>134,575</b>               | <b>77,812</b>                        | <b>(534,965)</b>                      |
| <b>Non-Operating Revenues(Expenses):</b>                         |                           |                              |                                      |                                       |
| Gain(loss) on disposal of capital assets.....                    | 76,684                    | -                            | -                                    | -                                     |
| Interest expense.....  | -                         | -                            | -                                    | -                                     |
| Interest income.....   | -                         | -                            | -                                    | -                                     |
| Non-operating revenue (expense).....                             | -                         | -                            | -                                    | -                                     |
| <b>Total non-operating revenues(expenses).....</b>               | <b>76,684</b>             | <b>0</b>                     | <b>0</b>                             | <b>0</b>                              |
| <b>Income (Loss) Before Contributions<br/>and Transfers.....</b> | <b>(601,725)</b>          | <b>134,575</b>               | <b>77,812</b>                        | <b>(534,965)</b>                      |
| Capital contributions from other funds.....                      | 6,723                     | -                            | -                                    | -                                     |
| Transfers in.....  | 1,990,649                 | -                            | -                                    | 5,049                                 |
| Transfers out.....   | -                         | -                            | -                                    | (29,781)                              |
| <b>Change in net assets.....</b>                                 | <b>1,395,647</b>          | <b>134,575</b>               | <b>77,812</b>                        | <b>(559,697)</b>                      |
| <b>Total Net Assets - Beginning.....</b>                         | <b>19,459,003</b>         | <b>885,439</b>               | <b>38,560</b>                        | <b>0</b>                              |
| <b>Total Net Assets - Ending.....</b>                            | <b>\$ 20,854,650</b>      | <b>\$ 1,020,014</b>          | <b>\$ 116,372</b>                    | <b>\$ (559,697)</b>                   |



| <b>Communcations<br/>&amp;<br/>Information<br/>Technology</b> | <b>GOVNET<br/>Fund</b> | <b>Supply<br/>Center<br/>Fund</b> | <b>Copy<br/>Center<br/>Fund</b> | <b>Postage<br/>Fund</b> | <b>Facilities<br/>Operations<br/>Fund</b> | <b>Property<br/>Management<br/>Fund</b> |
|---|------------------------|-----------------------------------|---------------------------------|-------------------------|---|---|
| \$ 9,787,081  | \$ 1,667,984           | \$ 3,382,119                      | \$ 2,252,649                    | \$ 3,262,821            | \$ 13,477,207                             | \$ -                                    |
| -   | -                      | -                                 | -                               | -                       | -   | 9,501,563                               |
| -   | -                      | -                                 | -                               | -                       | 1,046,940                                 | -                                       |
| <b>9,787,081</b>  | <b>1,667,984</b>       | <b>3,382,119</b>                  | <b>2,252,649</b>                | <b>3,262,821</b>        | <b>14,524,147</b>                         | <b>9,501,563</b>                        |
| 5,700,069   | 1,031,009              | 2,908,877                         | 279,271                         | 2,512,663               | -   | 6,509,567                               |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 2,765,174   | 626,242                | 267,189                           | 640,327                         | 389,146                 | 8,645,439                                 | 830,724                                 |
| 61,557  | 592                    | 12,607                            | 14,390                          | 14,052                  | 1,164,652                                 | 55,961                                  |
| 110,000   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 1,680   | 12                     | 222                               | 324                             | 140                     | 1,756                                     | 60                                      |
| 218,345   | -                      | 5,564                             | 5,431                           | 4,959                   | 144,565                                   | 4,771                                   |
| 3,321   | 118                    | 2,226                             | 2,533                           | 548                     | 2,566                                     | 285                                     |
| 31,315  | -                      | 8,919                             | 10,955                          | 1,750                   | 8,731                                     | 63                                      |
| 428,637   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 328   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 184,760   | 74,047                 | 64                                | (10)                            | 104                     | 84,358                                    | 7,648                                   |
| 602,888   | 2,731                  | 10,525                            | 514,328                         | 81,286                  | 1,058,842                                 | 50,606                                  |
| 247,193   | -                      | 25,705                            | 31,524                          | 30,555                  | 207,431                                   | 54,805                                  |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 140,413   | 29,434                 | 49,729                            | 14,317                          | 24,602                  | 53,712                                    | 986,300                                 |
| 196,564   | 43,322                 | 56,849                            | 844,196                         | 40,559                  | 119,073                                   | 3,663                                   |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| 21,009  | -                      | 3,554                             | 3,554                           | 4,229                   | 764,065                                   | 13,291                                  |
| 57,136  | 2,144                  | 3,404                             | 14,635                          | 7,309                   | 5,399,733                                 | 24,351                                  |
| <b>10,770,389</b>   | <b>1,809,651</b>       | <b>3,355,434</b>                  | <b>2,375,775</b>                | <b>3,111,902</b>        | <b>17,654,923</b>                         | <b>8,542,095</b>                        |
| <b>(983,308)</b>  | <b>(141,667)</b>       | <b>26,685</b>                     | <b>(123,126)</b>                | <b>150,919</b>          | <b>(3,130,776)</b>                        | <b>959,468</b>                          |
| -   | -                      | -                                 | (6,059)                         | -                       | (4,827)                                   | -                                       |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| (88,841)  | -                      | 100,246                           | (77,551)                        | 85,570                  | -   | -                                       |
| <b>(88,841)</b>   | <b>0</b>               | <b>100,246</b>                    | <b>(83,610)</b>                 | <b>85,570</b>           | <b>(4,827)</b>                            | <b>0</b>                                |
| <b>(1,072,149)</b>  | <b>(141,667)</b>       | <b>126,931</b>                    | <b>(206,736)</b>                | <b>236,489</b>          | <b>(3,135,603)</b>                        | <b>959,468</b>                          |
| (21,501)  | -                      | -                                 | 21,501                          | -                       | -   | -                                       |
| -   | -                      | -                                 | -                               | -                       | -   | -                                       |
| (140,000)   | -                      | (70,192)                          | -                               | (70,200)                | -   | (2,385,035)                             |
| <b>(1,233,650)</b>  | <b>(141,667)</b>       | <b>56,739</b>                     | <b>(185,235)</b>                | <b>166,289</b>          | <b>(3,135,603)</b>                        | <b>(1,425,567)</b>                      |
| <b>401,789</b>  | <b>(217,283)</b>       | <b>427,959</b>                    | <b>431,235</b>                  | <b>(107,928)</b>        | <b>(5,584,944)</b>                        | <b>(2,745,000)</b>                      |
| <b>\$ (831,861)</b>   | <b>\$ (358,950)</b>    | <b>\$ 484,698</b>                 | <b>\$ 246,000</b>               | <b>\$ 58,361</b>        | <b>\$ (8,720,547)</b>                     | <b>\$ (4,170,567)</b>                   |

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**STATE OF VERMONT  
COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | <b>Equipment<br/>Revolving<br/>Fund</b> | <b>State<br/>Surplus<br/>Property<br/>Fund</b> | <b>State<br/>Liability<br/>Insurance<br/>Fund</b> | <b>Risk<br/>Management<br/>All -Other<br/>Plan</b> |
|--|---|--|---|--|
| <b>Operating Revenues:</b>                                       |   |  |   |  |
| Charges for sales and services.....                              | \$ 494,254                              | \$ 1,111,946                                   | \$ 2,243,668                                      | \$ 1,662,945                                       |
| Rental income.....   | -                                       | -  | -   | -  |
| Other operating revenues.....                                    | 411,628                                 | -  | -   | -  |
| <b>Total operating revenues.....</b>                             | <b>905,882</b>                          | <b>1,111,946</b>                               | <b>2,243,668</b>                                  | <b>1,662,945</b>                                   |
| <b>Operating Expenses:</b>                                       |   |  |   |  |
| Cost of sales and services.....                                  | -                                       | 982,054  | 427,900   | 1,548,298  |
| Claims expense.....  | -                                       | -  | 1,523,564   | -  |
| Salaries and benefits.....                                       | -                                       | 72,435   | 617,508   | 104,480  |
| Supplies and parts.....  | 1,602                                   | 6,358  | 2,027   | 536  |
| Data processing charges.....                                     | -                                       | -  | -   | -  |
| Transportation.....  | -                                       | -  | 37  | 29   |
| Telephone/telegraph.....   | -                                       | 2,341  | 1,819   | 389  |
| Postage.....   | 96                                      | 1,224  | 569   | 134  |
| Printing and duplicating.....                                    | -                                       | 101  | 1,523   | 354  |
| Rental of data processing equipment.....                         | -                                       | -  | -   | -  |
| Other equipment rentals.....                                     | -                                       | -  | -   | -  |
| Equipment purchased for agencies.....                            | 327,597                                 | 2,882  | 344   | 1,033  |
| Repairs and maintenance.....                                     | -                                       | 1,137  | 29  | 7  |
| Administrative services costs.....                               | 1,478                                   | 23,280   | 60,000  | 50,000   |
| Operating overhead.....  | -                                       | -  | -   | -  |
| Office rent.....   | -                                       | 11,685   | 2,654   | 664  |
| Depreciation.....  | -                                       | 1,146  | 90  | 23   |
| Contractual fees.....  | 575,109                                 | -  | -   | -  |
| Insurance premium expense.....                                   | -                                       | -  | 626   | 100  |
| Other operating expenses.....                                    | -                                       | 10,182   | 16,172  | 3,493  |
| <b>Total operating expenses.....</b>                             | <b>905,882</b>                          | <b>1,114,825</b>                               | <b>2,654,862</b>                                  | <b>1,709,540</b>                                   |
| <b>Operating Income(Loss).....</b>                               | <b>0</b>                                | <b>(2,879)</b>                                 | <b>(411,194)</b>                                  | <b>(46,595)</b>                                    |
| <b>Non-Operating Revenues(Expenses):</b>                         |   |  |   |  |
| Gain(loss) on disposal of capital assets.....                    | -                                       | -  | -   | -  |
| Interest expense.....  | -                                       | -  | -   | -  |
| Interest income.....   | -                                       | -  | 94,129  | -  |
| Non-operating revenue (expense).....                             | -                                       | -  | -   | -  |
| <b>Total non-operating revenues(expenses).....</b>               | <b>0</b>                                | <b>0</b>                                       | <b>94,129</b>                                     | <b>0</b>   |
| <b>Income (Loss) Before Contributions<br/>and Transfers.....</b> | <b>0</b>                                | <b>(2,879)</b>                                 | <b>(317,065)</b>                                  | <b>(46,595)</b>                                    |
| Capital contributions from other funds.....                      | -                                       | -  | -   | -  |
| Transfers in.....  | -                                       | -  | -   | -  |
| Transfers out.....   | -                                       | -  | -   | -  |
| <b>Change in net assets.....</b>                                 | <b>0</b>                                | <b>(2,879)</b>                                 | <b>(317,065)</b>                                  | <b>(46,595)</b>                                    |
| <b>Total Net Assets - Beginning.....</b>                         | <b>0</b>                                | <b>141,893</b>                                 | <b>1,528,254</b>                                  | <b>68,618</b>                                      |
| <b>Total Net Assets - Ending.....</b>                            | <b>\$ 0</b>                             | <b>\$ 139,014</b>                              | <b>\$ 1,211,189</b>                               | <b>\$ 22,023</b>                                   |

| <u>Workers' Compensation Plan</u> | <u>Medical Insurance Fund</u> | <u>Dental Insurance Fund</u> | <u>Life Insurance Fund</u> | <u>Long-Term Disability Fund</u> | <u>Employees' Assistance Fund</u> | <u>Total Internal Service Funds</u> |
|-----------------------------------|-------------------------------|------------------------------|----------------------------|----------------------------------|-----------------------------------|-------------------------------------|
| \$ 7,295,204                      | \$ 70,901,947                 | \$ 5,147,633                 | \$ 1,597,123               | \$ 161,890                       | \$ 226,960                        | \$ 140,768,461                      |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 9,679,965                           |
| -                                 | 448,035                       | 50                           | -                          | -                                | -                                 | 1,943,762                           |
| <b>7,295,204</b>                  | <b>71,349,982</b>             | <b>5,147,683</b>             | <b>1,597,123</b>           | <b>161,890</b>                   | <b>226,960</b>                    | <b>152,392,188</b>                  |
| 138,242                           | -                             | -                            | -                          | -                                | -                                 | 29,206,848                          |
| 7,240,716                         | 60,927,903                    | 4,529,471                    | -                          | -                                | -                                 | 74,221,654                          |
| 737,656                           | 757,215                       | 71,303                       | 24,130                     | -                                | -                                 | 20,553,291                          |
| 4,954                             | 55,411                        | 687                          | 229                        | -                                | -                                 | 1,448,991                           |
| -                                 | 15,950                        | 1,203                        | 401                        | -                                | -                                 | 145,810                             |
| 179                               | 18,510                        | 97                           | 32                         | -                                | -                                 | 32,680                              |
| 5,934                             | 7,058                         | 964                          | 303                        | -                                | -                                 | 448,117                             |
| 2,434                             | 17,463                        | 1,140                        | 380                        | -                                | -                                 | 37,762                              |
| 5,659                             | 13,543                        | 942                          | 313                        | -                                | -                                 | 89,340                              |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 428,637                             |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 796                                 |
| 2,020                             | -                             | -                            | -                          | -                                | -                                 | 687,794                             |
| 108                               | 5,869                         | -                            | -                          | -                                | -                                 | 4,131,462                           |
| 84,193                            | 3,937,561                     | 290,643                      | -                          | -                                | 220,896                           | 5,265,264                           |
| -                                 | 2,592                         | -                            | -                          | -                                | -                                 | 431,840                             |
| 9,953                             | 34,213                        | 6,415                        | 2,138                      | -                                | -                                 | 1,449,497                           |
| 338                               | -                             | -                            | -                          | -                                | -                                 | 4,464,101                           |
| 740,836                           | 293,427                       | -                            | 19,708                     | 23,602                           | -                                 | 1,870,011                           |
| 2,366                             | 2,844,807                     | -                            | 1,731,332                  | 157,955                          | -                                 | 5,550,479                           |
| 173,978                           | 15,564                        | 1,588                        | 1,194                      | -                                | -                                 | 6,036,150                           |
| <b>9,149,566</b>                  | <b>68,947,086</b>             | <b>4,904,453</b>             | <b>1,780,160</b>           | <b>181,557</b>                   | <b>220,896</b>                    | <b>156,500,524</b>                  |
| <b>(1,854,362)</b>                | <b>2,402,896</b>              | <b>243,230</b>               | <b>(183,037)</b>           | <b>(19,667)</b>                  | <b>6,064</b>                      | <b>(4,108,336)</b>                  |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 65,798                              |
| (1,168)                           | -                             | -                            | -                          | -                                | -                                 | (1,168)                             |
| 100,770                           | 213,028                       | 4,972                        | 7,237                      | -                                | -                                 | 420,136                             |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 19,424                              |
| <b>99,602</b>                     | <b>213,028</b>                | <b>4,972</b>                 | <b>7,237</b>               | <b>0</b>                         | <b>0</b>                          | <b>504,190</b>                      |
| <b>(1,754,760)</b>                | <b>2,615,924</b>              | <b>248,202</b>               | <b>(175,800)</b>           | <b>(19,667)</b>                  | <b>6,064</b>                      | <b>(3,604,146)</b>                  |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 6,723                               |
| -                                 | -                             | -                            | -                          | -                                | -                                 | 1,995,698                           |
| -                                 | -                             | -                            | -                          | (14,000)                         | (89,000)                          | (2,798,208)                         |
| <b>(1,754,760)</b>                | <b>2,615,924</b>              | <b>248,202</b>               | <b>(175,800)</b>           | <b>(33,667)</b>                  | <b>(82,936)</b>                   | <b>(4,399,933)</b>                  |
| <b>(5,463,351)</b>                | <b>9,512,955</b>              | <b>100,087</b>               | <b>629,228</b>             | <b>44,887</b>                    | <b>109,957</b>                    | <b>19,661,358</b>                   |
| <b>\$ (7,218,111)</b>             | <b>\$ 12,128,879</b>          | <b>\$ 348,289</b>            | <b>\$ 453,428</b>          | <b>\$ 11,220</b>                 | <b>\$ 27,021</b>                  | <b>\$ 15,261,425</b>                |

**STATE OF VERMONT  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | Highway<br>Garage<br>Fund | Offender<br>Work<br>Programs | Single<br>Audit<br>Revolving<br>Fund | Financial & HR<br>Information<br>Fund |
|--|---------------------------|------------------------------|--------------------------------------|---------------------------------------|
| <b>Cash Flows From Operating Activities:</b>   |                           |                              |                                      |                                       |
| Cash received from customers.....  | \$ 9,419,119              | \$ 2,879,738                 | \$ 1,008,522                         | \$ 3,020,735                          |
| Cash paid to suppliers for goods and services.....   | (4,155,379)               | (969,698)                    | (937,961)                            | (1,279,157)                           |
| Cash paid to employees for services.....   | (2,694,265)               | (1,438,483)                  | -                                    | (2,024,405)                           |
| Cash paid to claimants.....  | -                         | -                            | -                                    | -                                     |
| Other operating revenues.....  | 32,630                    | 4,479                        | -                                    | -                                     |
| Other operating expenses.....  | -                         | (233,031)                    | -                                    | -                                     |
| <b>Net cash provided(used) by operating activities.....</b>  | <b>2,602,105</b>          | <b>243,005</b>               | <b>70,561</b>                        | <b>(282,827)</b>                      |
| <b>Cash Flows From Noncapital Financing Activities:</b>  |                           |                              |                                      |                                       |
| Interfund loans.....   | 191,928                   | (222,535)                    | -                                    | 307,559                               |
| Non-operating revenue (expense).....   | -                         | -                            | -                                    | -                                     |
| Operating transfers.....   | 1,990,649                 | -                            | -                                    | (24,732)                              |
| <b>Net cash provided (used) by noncapital<br/>financing activities.....</b>                        | <b>2,182,577</b>          | <b>(222,535)</b>             | <b>0</b>                             | <b>282,827</b>                        |
| <b>Cash Flows From Capital and Related Financing Activities:</b>                                   |                           |                              |                                      |                                       |
| Proceeds from sale of capital assets.....  | 420,986                   | -                            | -                                    | -                                     |
| Acquisition and construction of capital assets.....  | (5,205,668)               | (20,470)                     | -                                    | -                                     |
| <b>Net cash provided(used) by capital &amp; related<br/>financing activities.....</b>              | <b>(4,784,682)</b>        | <b>(20,470)</b>              | <b>0</b>                             | <b>0</b>                              |
| <b>Cash Flows From Investing Activities:</b>   |                           |                              |                                      |                                       |
| Interest earned on investments.....  | -                         | -                            | -                                    | -                                     |
| <b>Net cash provided by investing activities.....</b>  | <b>0</b>                  | <b>0</b>                     | <b>0</b>                             | <b>0</b>                              |
| <b>Net increase(decrease) in cash and cash equivalents.....</b>                                    | <b>0</b>                  | <b>0</b>                     | <b>70,561</b>                        | <b>0</b>                              |
| Cash and cash equivalents at July 1.....   | 0                         | 0                            | 37,891                               | 0                                     |
| <b>Cash and cash equivalents at June 30.....</b>   | <b>\$ 0</b>               | <b>\$ 0</b>                  | <b>\$ 108,452</b>                    | <b>\$ 0</b>                           |
| <b>Reconciliation of Operating Income to Net Cash Provided<br/>by Operating Activities:</b>        |                           |                              |                                      |                                       |
| Operating income (loss).....   | \$ (678,409)              | \$ 134,575                   | \$ 77,812                            | \$ (534,965)                          |
| <b>Adjustments to Reconcile Operating Income to Net Cash<br/>Provided by Operating Activities:</b> |                           |                              |                                      |                                       |
| Depreciation.....  | 3,103,170                 | 55,108                       | -                                    | -                                     |
| (Increase)decrease in accounts receivable.....   | 249,239                   | (87,918)                     | (7,213)                              | (99,388)                              |
| (Increase)decrease in due from other funds.....  | -                         | -                            | (38)                                 | -                                     |
| (Increase)decrease in prepaid expenses.....  | (11,923)                  | 1,709                        | -                                    | -                                     |
| (Increase)decrease in inventory.....   | (73,135)                  | 43,003                       | -                                    | -                                     |
| Increase(decrease) in accounts payable.....  | 8,034                     | 101,276                      | -                                    | 64,204                                |
| Increase(decrease) in claims payable.....  | -                         | -                            | -                                    | -                                     |
| Increase(decrease) in due to other funds.....  | -                         | -                            | -                                    | -                                     |
| Increase(decrease) in accrued salaries and benefits.....   | 5,129                     | (4,748)                      | -                                    | 287,322                               |
| Increase(Decrease) in deferred revenue.....  | -                         | -                            | -                                    | -                                     |
| <b>Total adjustments.....</b>  | <b>3,280,514</b>          | <b>108,430</b>               | <b>(7,251)</b>                       | <b>252,138</b>                        |
| <b>Net cash provided(used) by operating activities.....</b>  | <b>\$ 2,602,105</b>       | <b>\$ 243,005</b>            | <b>\$ 70,561</b>                     | <b>\$ (282,827)</b>                   |

| <b>Communcations<br/>&amp;<br/>Information<br/>Technology</b>  | <b>GOVNET<br/>Fund</b>   | <b>Supply<br/>Center<br/>Fund</b>  | <b>Copy<br/>Center<br/>Fund</b>   | <b>Postage<br/>Fund</b>   | <b>Facilities<br/>Operations<br/>Fund</b>   | <b>Property<br/>Management<br/>Fund</b>  |
|--|--|--|---|---|---|--|
| \$ 11,008,474<br>(7,637,756)<br>(2,336,288)<br>-<br>-<br>-   | \$ 1,644,723<br>(1,349,109)<br>(380,736)<br>-<br>-<br>-                                | \$ 4,011,038<br>(3,212,190)<br>(445,673)<br>-<br>-<br>-  | \$ 2,732,667<br>(1,220,982)<br>(621,756)<br>-<br>-<br>-   | \$ 3,168,599<br>(3,304,101)<br>(345,218)<br>-<br>-<br>-   | \$ 12,310,299<br>(9,444,691)<br>(7,870,656)<br>-<br>1,046,940<br>-                            | \$ 9,412,412<br>(7,715,687)<br>(677,950)<br>-<br>-<br>-                                    |
| <b>1,034,430</b>   | <b>(85,122)</b>  | <b>353,175</b>   | <b>889,929</b>  | <b>(480,720)</b>  | <b>(3,958,108)</b>  | <b>1,018,775</b>   |
| 10,223<br>(88,841)<br>(140,000)  | 242,876<br>-<br>-  | (298,969)<br>100,246<br>(70,192)   | 60,544<br>(77,551)<br>-   | 504,883<br>85,570<br>-  | 4,129,958<br>-<br>-   | 1,378,733<br>-<br>(2,385,035)  |
| <b>(218,618)</b>   | <b>242,876</b>   | <b>(268,915)</b>   | <b>(17,007)</b>   | <b>590,453</b>  | <b>4,129,958</b>  | <b>(1,006,302)</b>   |
| -<br>(815,812)   | -<br>(157,754)   | -<br>(84,260)  | -<br>(872,922)  | -<br>(109,733)  | -<br>(171,850)  | -<br>(12,473)  |
| <b>(815,812)</b>   | <b>(157,754)</b>   | <b>(84,260)</b>  | <b>(872,922)</b>  | <b>(109,733)</b>  | <b>(171,850)</b>  | <b>(12,473)</b>  |
| -<br><b>0</b>  | -<br><b>0</b>  | -<br><b>0</b>  | -<br><b>0</b>   | -<br><b>0</b>   | -<br><b>0</b>   | -<br><b>0</b>  |
| <b>0</b><br>0  | <b>0</b><br>0  | <b>0</b><br>0  | <b>0</b><br>0   | <b>0</b><br>0   | <b>0</b><br>0   | <b>0</b><br>0  |
| <b>\$ 0</b>  | <b>\$ 0</b>  | <b>\$ 0</b>  | <b>\$ 0</b>   | <b>\$ 0</b>   | <b>\$ 0</b>   | <b>\$ 0</b>  |
| \$ (983,308)   | \$ (141,667)   | \$ 26,685  | \$ (123,126)  | \$ 150,919  | \$ (3,130,776)  | \$ 959,468   |
| 196,564<br>1,605,256<br>-<br>(123,304)<br>66,595<br>279,585<br>-<br>-<br>7,562<br>(14,520)<br><b>2,017,738</b> | 43,322<br>(25,053)<br>-<br>-<br>-<br>39,948<br>-<br>-<br>(1,672)<br>-<br><b>56,545</b> | 56,849<br>374,952<br>-<br>-<br>(6,416)<br>(94,510)<br>-<br>-<br>(4,385)<br>-<br><b>326,490</b> | 844,196<br>455,218<br>-<br>1,879<br>(22,410)<br>(265,097)<br>-<br>-<br>(731)<br>-<br><b>1,013,055</b> | 40,559<br>(157,697)<br>-<br>(130)<br>(521,375)<br>(19,996)<br>-<br>-<br>27,000<br>-<br><b>(631,639)</b> | 119,073<br>(1,309,068)<br>-<br>-<br>-<br>296,414<br>-<br>-<br>66,249<br>-<br><b>(827,332)</b> | 3,663<br>(296,583)<br>-<br>5,505<br>-<br>321,857<br>-<br>-<br>24,865<br>-<br><b>59,307</b> |
| <b>\$ 1,034,430</b>  | <b>\$ (85,122)</b>   | <b>\$ 353,175</b>  | <b>\$ 889,929</b>   | <b>\$ (480,720)</b>   | <b>\$ (3,958,108)</b>   | <b>\$ 1,018,775</b>  |

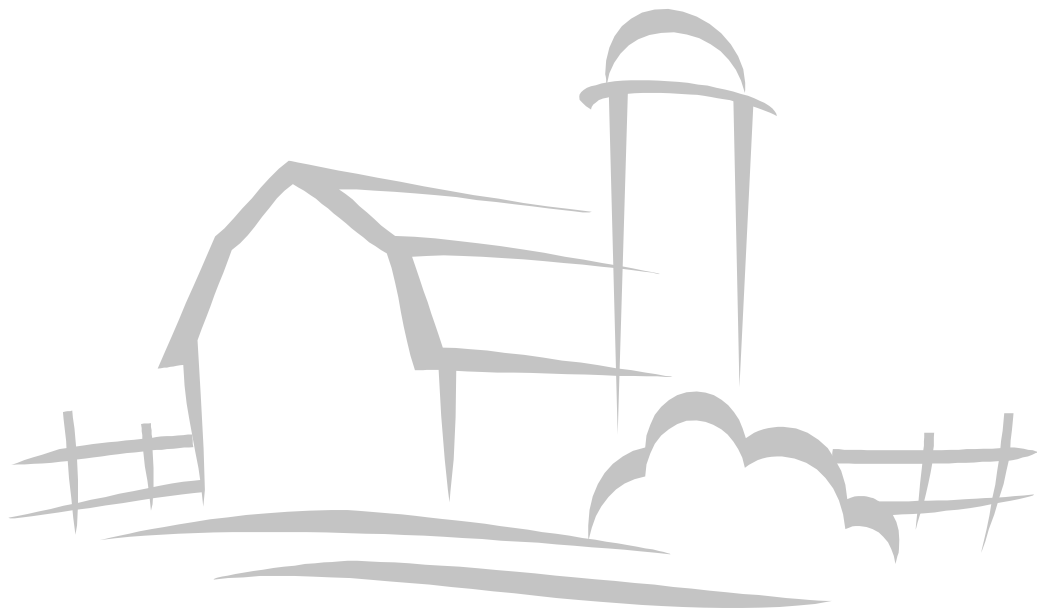
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STATE OF VERMONT  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

|  | Equipment<br>Revolving<br>Fund | State<br>Surplus<br>Property<br>Fund | State<br>Liability<br>Insurance<br>Fund | Risk<br>Management<br>All -Other<br>Plan |
|--|--------------------------------|--------------------------------------|---|--|
| <b>Cash Flows From Operating Activities:</b>   |                                |                                      |   |  |
| Cash received from customers.....  | \$ 548,569                     | \$ 312,435                           | \$ 2,298,645                            | \$ 2,059,877                             |
| Cash paid to suppliers for goods and services.....   | (859,931)                      | (539,838)                            | (514,858)                               | (1,628,275)                              |
| Cash paid to employees for services.....   | -                              | (49,631)                             | (580,473)                               | (44,066)                                 |
| Cash paid to claimants.....  | -                              | -                                    | (1,193,589)                             | -  |
| Other operating revenues.....  | -                              | -                                    | -                                       | -  |
| Other operating expenses.....  | (1,822)                        | -                                    | -                                       | -  |
| <b>Net cash provided(used) by operating activities....</b>   | <b>(313,184)</b>               | <b>(277,034)</b>                     | <b>9,725</b>                            | <b>387,536</b>                           |
| <b>Cash Flows From Noncapital Financing Activities:</b>  |                                |                                      |   |  |
| Interfund loans.....   | 313,184                        | -                                    | -                                       | (385,913)                                |
| Non-operating revenue (expense).....   | -                              | -                                    | -                                       | -  |
| Operating transfers.....   | -                              | -                                    | -                                       | -  |
| <b>Net cash provided (used) by noncapital<br/>financing activities.....</b>                        | <b>313,184</b>                 | <b>0</b>                             | <b>0</b>                                | <b>(385,913)</b>                         |
| <b>Cash Flows From Capital and Related Financing Activities:</b>                                   |                                |                                      |   |  |
| Proceeds from sale of capital assets.....  | -                              | -                                    | -                                       | -  |
| Acquisition and construction of capital assets.....  | -                              | -                                    | (6,492)                                 | (1,623)                                  |
| <b>Net cash provided(used) by capital &amp; related<br/>financing activities.....</b>              | <b>0</b>                       | <b>0</b>                             | <b>(6,492)</b>                          | <b>(1,623)</b>                           |
| <b>Cash Flows From Investing Activities:</b>   |                                |                                      |   |  |
| Interest earned on investments.....  | -                              | -                                    | 93,341                                  | -  |
| <b>Net cash provided by investing activities.....</b>  | <b>0</b>                       | <b>0</b>                             | <b>93,341</b>                           | <b>0</b>                                 |
| <b>Net increase(decrease) in cash and cash equivalents.....</b>                                    | <b>0</b>                       | <b>(277,034)</b>                     | <b>96,574</b>                           | <b>0</b>                                 |
| Cash and cash equivalents at July 1.....   | 0                              | 406,623                              | 7,708,891                               | 0  |
| <b>Cash and cash equivalents at June 30.....</b>   | <b>\$ 0</b>                    | <b>\$ 129,589</b>                    | <b>\$ 7,805,465</b>                     | <b>\$ 0</b>                              |
| <b>Reconciliation of Operating Income to Net Cash Provided<br/>by Operating Activities:</b>        |                                |                                      |   |  |
| Operating income (loss).....   | \$ -                           | \$ (2,879)                           | \$ (411,194)                            | \$ (46,595)                              |
| <b>Adjustments to Reconcile Operating Income to Net Cash<br/>Provided by Operating Activities:</b> |                                |                                      |   |  |
| Depreciation.....  | -                              | 1,146                                | 90                                      | 23                                       |
| (Increase)decrease in accounts receivable.....   | (357,313)                      | 3,187                                | 54,977                                  | 412,868                                  |
| (Increase)decrease in due from other funds.....  | -                              | -                                    | -                                       | -  |
| (Increase)decrease in prepaid expenses.....  | -                              | -                                    | -                                       | -  |
| (Increase)decrease in inventory.....   | -                              | 6,916                                | -                                       | -  |
| Increase(decrease) in accounts payable.....  | 44,473                         | (285,331)                            | 35,637                                  | 21,061                                   |
| Increase(decrease) in claims payable.....  | -                              | -                                    | 329,975                                 | -  |
| Increase(decrease) in due to other funds.....  | (344)                          | -                                    | 240                                     | 179                                      |
| Increase(decrease) in accrued salaries and benefits.....   | -                              | (73)                                 | -                                       | -  |
| Increase(Decrease) in deferred revenue.....  | -                              | -                                    | -                                       | -  |
| <b>Total adjustments.....</b>  | <b>(313,184)</b>               | <b>(274,155)</b>                     | <b>420,919</b>                          | <b>434,131</b>                           |
| <b>Net cash provided(used) by operating activities.....</b>  | <b>\$ (313,184)</b>            | <b>\$ (277,034)</b>                  | <b>\$ 9,725</b>                         | <b>\$ 387,536</b>                        |

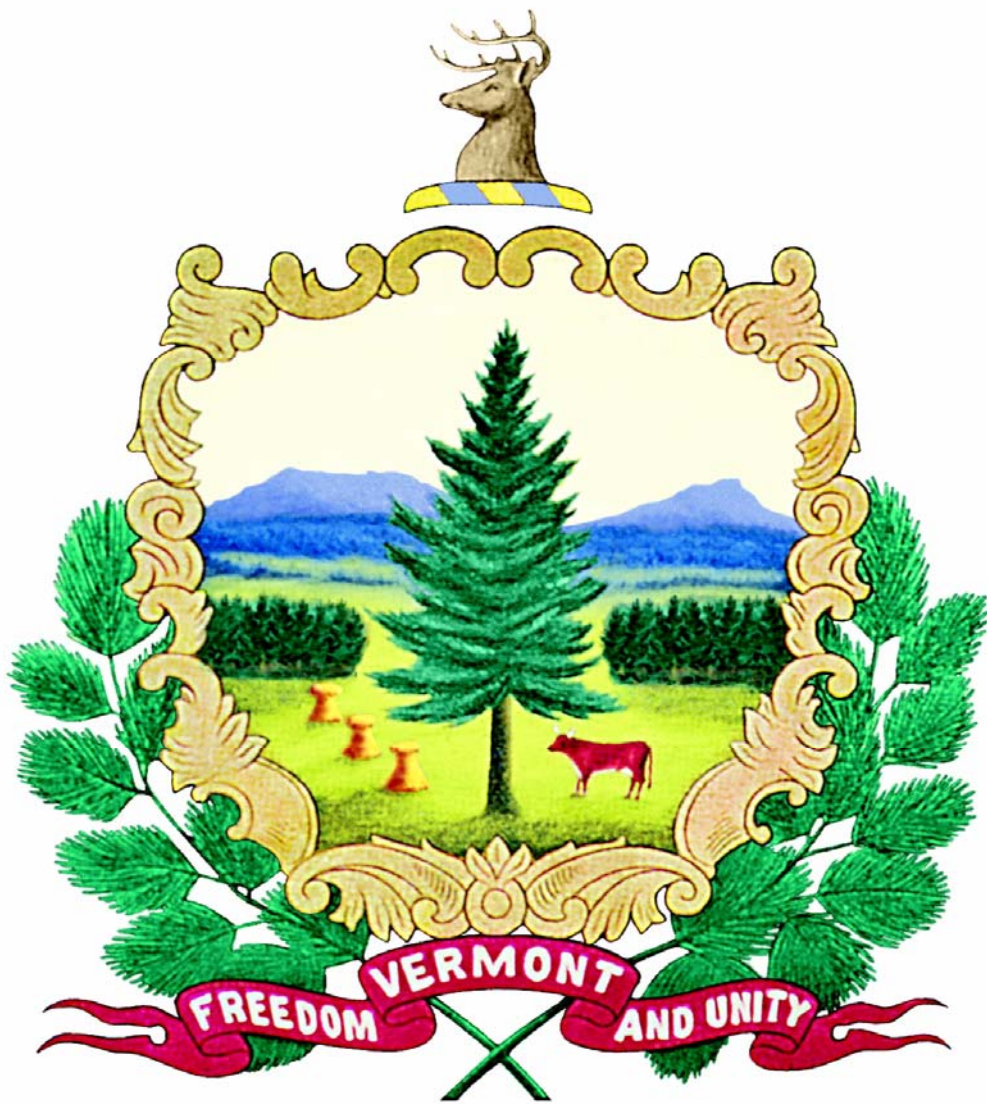
| <b>Workers<br/>Compensation<br/>Plan</b> | <b>Medical<br/>Insurance<br/>Fund</b> | <b>Dental<br/>Insurance<br/>Fund</b> | <b>Life<br/>Insurance<br/>Fund</b> | <b>Long-Term<br/>Disability<br/>Fund</b> | <b>Employees'<br/>Assistance<br/>Fund</b> | <b>Total<br/>Internal<br/>Service<br/>Funds</b> |
|--|---------------------------------------|--------------------------------------|------------------------------------|--|---|---|
| \$ 7,267,980                             | \$ 70,798,171                         | \$ 5,135,731                         | \$ 1,592,096                       | \$ 163,349                               | \$ 230,591                                | \$ 151,023,770                                  |
| (1,146,555)                              | (9,637,698)                           | (279,987)                            | (1,294,170)                        | -  | (226,209)                                 | (57,354,232)                                    |
| (678,619)                                | (774,605)                             | (74,759)                             | (25,230)                           | (171,007)                                | -   | (21,233,820)                                    |
| (4,800,975)                              | (58,026,702)                          | (4,531,176)                          | -                                  | -  | -   | (68,552,442)                                    |
| -  | 448,035                               | 50                                   | -                                  | -  | -   | 1,532,134                                       |
| -  | (14,912)                              | (1,588)                              | (1,194)                            | -  | -   | (252,547)                                       |
| <b>641,831</b>                           | <b>2,792,289</b>                      | <b>248,271</b>                       | <b>271,502</b>                     | <b>(7,658)</b>                           | <b>4,382</b>                              | <b>5,162,863</b>                                |
| -  | -                                     | -                                    | -                                  | -  | -   | 6,232,471                                       |
| -  | -                                     | -                                    | -                                  | -  | -   | 19,424  |
| -  | -                                     | -                                    | -                                  | (14,000)                                 | (89,000)                                  | (732,310)                                       |
| <b>0</b>                                 | <b>0</b>                              | <b>0</b>                             | <b>0</b>                           | <b>(14,000)</b>                          | <b>(89,000)</b>                           | <b>5,519,585</b>                                |
| -  | -                                     | -                                    | -                                  | -  | -   | 420,986   |
| (24,344)                                 | -                                     | -                                    | -                                  | -  | -   | (7,483,401)                                     |
| <b>(24,344)</b>                          | <b>0</b>                              | <b>0</b>                             | <b>0</b>                           | <b>0</b>                                 | <b>0</b>                                  | <b>(7,062,415)</b>                              |
| 100,770                                  | 213,028                               | 4,972                                | 7,237                              | -  | -   | 419,348   |
| <b>100,770</b>                           | <b>213,028</b>                        | <b>4,972</b>                         | <b>7,237</b>                       | <b>0</b>                                 | <b>0</b>                                  | <b>419,348</b>                                  |
| <b>718,257</b>                           | <b>3,005,317</b>                      | <b>253,243</b>                       | <b>278,739</b>                     | <b>(21,658)</b>                          | <b>(84,618)</b>                           | <b>4,039,381</b>                                |
| 7,663,613                                | 19,456,667                            | 257,276                              | 578,527                            | 39,661                                   | 121,260                                   | 36,270,409                                      |
| <b>\$ 8,381,870</b>                      | <b>\$ 22,461,984</b>                  | <b>\$ 510,519</b>                    | <b>\$ 857,266</b>                  | <b>\$ 18,003</b>                         | <b>\$ 36,642</b>                          | <b>\$ 40,309,790</b>                            |
| \$ (1,854,362)                           | \$ 2,402,896                          | \$ 243,230                           | \$ (183,037)                       | \$ (19,667)                              | \$ 6,064                                  | \$ (4,108,336)                                  |
| 338                                      | -                                     | -                                    | -                                  | -  | -   | 4,464,101                                       |
| (128,909)                                | (492,083)                             | (11,859)                             | (6,331)                            | 1,458                                    | 3,631                                     | 181,371   |
| (418)                                    | -                                     | -                                    | 2,694                              | -  | -   | 2,238   |
| -  | -                                     | -                                    | -                                  | -  | -   | (126,264)                                       |
| -  | -                                     | -                                    | -                                  | -  | -   | (506,822)                                       |
| 79,146                                   | (2,016,378)                           | 22,061                               | 460,666                            | 10,551                                   | (5,313)                                   | (901,712)                                       |
| 2,535,816                                | 2,532,393                             | (1,705)                              | -                                  | -  | -   | 5,396,479                                       |
| -  | (774,344)                             | -                                    | -                                  | -  | -   | (774,269)                                       |
| 10,220                                   | (17,390)                              | (3,456)                              | (1,100)                            | -  | -   | 394,792   |
| -  | 1,157,195                             | -                                    | (1,390)                            | -  | -   | 1,141,285                                       |
| <b>2,496,193</b>                         | <b>389,393</b>                        | <b>5,041</b>                         | <b>454,539</b>                     | <b>12,009</b>                            | <b>(1,682)</b>                            | <b>9,271,199</b>                                |
| <b>\$ 641,831</b>                        | <b>\$ 2,792,289</b>                   | <b>\$ 248,271</b>                    | <b>\$ 271,502</b>                  | <b>\$ (7,658)</b>                        | <b>\$ 4,382</b>                           | <b>\$ 5,162,863</b>                             |

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***PENSION TRUST FUNDS***

**STATE OF VERMONT  
PENSION TRUST FUNDS  
COMBINING STATEMENTS OF PLAN NET ASSETS  
June 30, 2003**

|  | <b>Vermont<br/>State<br/>Retirement<br/>System</b> | <b>Vermont<br/>State<br/>Defined<br/>Contribution<br/>Plan</b> | <b>State<br/>Teachers'<br/>Retirement<br/>Fund</b> |
|--|--|--|--|
| <b>Assets:</b>   |  |  |  |
| Cash and short term investments.....                                     | \$ 15,490,076                                      | \$ 189,460   | \$ 31,758,446                                      |
| Receivables:   |  |  |  |
| Contributions.....   | 1,477,796  | 82,330   | 1,256,125  |
| Investment.....  | 4,244,413  | -  | 4,952,335  |
| Investments sold.....  | 81,044,412   | -  | 21,926,321   |
| Due from other funds.....  | 60,808   | -  | -  |
| Other.....   | -  | -  | -  |
| <b>Total receivables.....</b>  | <b>86,827,429</b>                                  | <b>82,330</b>  | <b>28,134,781</b>                                  |
| Investments at Fair value:   |  |  |  |
| Fixed income.....  | 239,751,978  | -  | 311,772,613  |
| Common and preferred stock.....  | 550,741,642  | -  | 678,291,852  |
| Mortgages.....   | 13,574   | -  | 1,836  |
| Real estate and venture capital.....                                     | 87,326,407   | -  | 98,046,036   |
| Mutual funds.....  | 19,756,388   | 26,713,898   | -  |
| <b>Total investments.....</b>  | <b>897,589,989</b>                                 | <b>26,713,898</b>  | <b>1,088,112,337</b>                               |
| Prepaid expenses.....  | 894,847  | -  | -  |
| <b>Total assets.....</b>   | <b>1,000,802,341</b>                               | <b>26,985,688</b>  | <b>1,148,005,564</b>                               |
| <b>Liabilities:</b>  |  |  |  |
| Payable for investments purchased.....                                   | 82,143,443   | -  | 47,465,264   |
| Accounts payable.....  | 874,441  | 9,696  | 1,410,364  |
| Accrued liabilities.....   | 17,598   | -  | 20,112   |
| Due to other funds.....  | -  | 55,049   | -  |
| <b>Total liabilities.....</b>  | <b>83,035,482</b>                                  | <b>64,745</b>  | <b>48,895,740</b>                                  |
| <b>Net assets held in trust for<br/>employees' pension benefits.....</b> | <b>\$ 917,766,859</b>                              | <b>\$ 26,920,943</b>   | <b>\$ 1,099,109,824</b>                            |

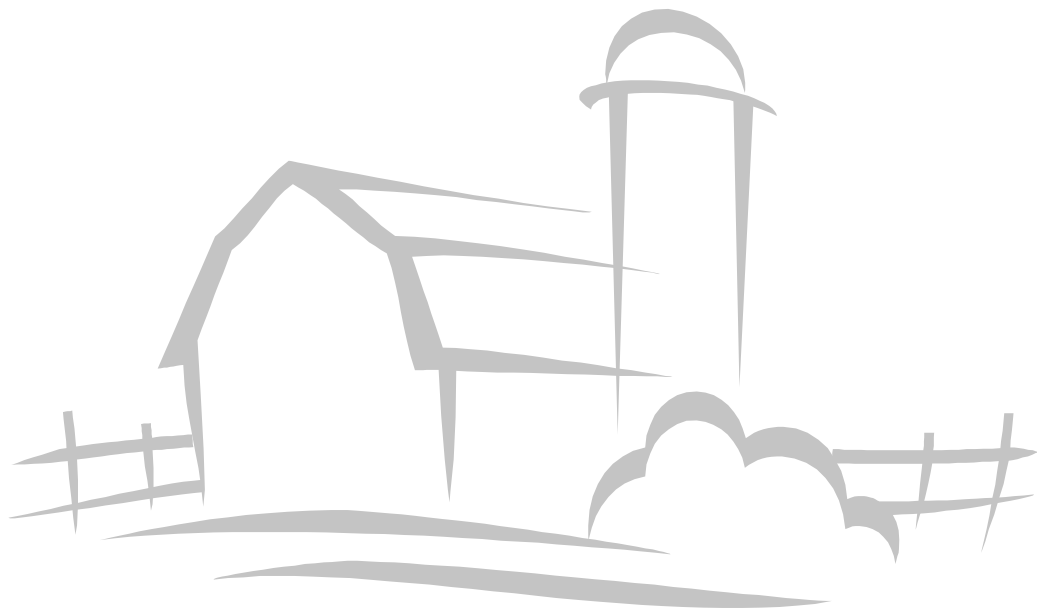
| <b>Single<br/>Deposit<br/>Investment<br/>Account</b> | <b>Vermont<br/>Municipal<br/>Employees'<br/>Retirement<br/>Fund</b> | <b>Vermont<br/>Municipal<br/>Employees'<br/>Defined<br/>Contribution<br/>Fund</b> | <b>Total<br/>Pension<br/>Trust<br/>Funds</b> |
|--|---|---|--|
| \$ 10,862,716  | \$ 3,494,542  | \$ 66,164   | \$ 61,861,404                                |
| -  | 1,242,862   | -   | 4,059,113                                    |
| 934,855  | 1,061,838   | -   | 11,193,441                                   |
| 1,052,835  | 11,026,219  | -   | 115,049,787                                  |
| -  | 74,028  | -   | 134,836                                      |
| -  | 10,244,344  | -   | 10,244,344                                   |
| <b>1,987,690</b>                                     | <b>23,649,291</b>   | <b>0</b>  | <b>140,681,521</b>                           |
| 97,085,757   | 55,485,459  | -   | 704,095,807                                  |
| -  | 43,003,156  | -   | 1,272,036,650                                |
| -  | -   | -   | 15,410                                       |
| -  | 14,086,788  | -   | 199,459,231                                  |
| -  | 80,538,301  | 5,784,210   | 132,792,797                                  |
| <b>97,085,757</b>                                    | <b>193,113,704</b>  | <b>5,784,210</b>  | <b>2,308,399,895</b>                         |
| -  | -   | -   | 894,847                                      |
| <b>109,936,163</b>                                   | <b>220,257,537</b>  | <b>5,850,374</b>  | <b>2,511,837,667</b>                         |
| 3,147,979  | 22,542,736  | -   | 155,299,422                                  |
| -  | 210,314   | 387   | 2,505,202                                    |
| -  | 4,190   | -   | 41,900                                       |
| -  | 5,759   | 74,028  | 134,836                                      |
| <b>3,147,979</b>                                     | <b>22,762,999</b>   | <b>74,415</b>   | <b>157,981,360</b>                           |
| <b>\$ 106,788,184</b>                                | <b>\$ 197,494,538</b>   | <b>\$ 5,775,959</b>   | <b>\$ 2,353,856,307</b>                      |

**STATE OF VERMONT  
PENSION TRUST FUNDS  
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
For the Fiscal Year Ended June 30, 2003**

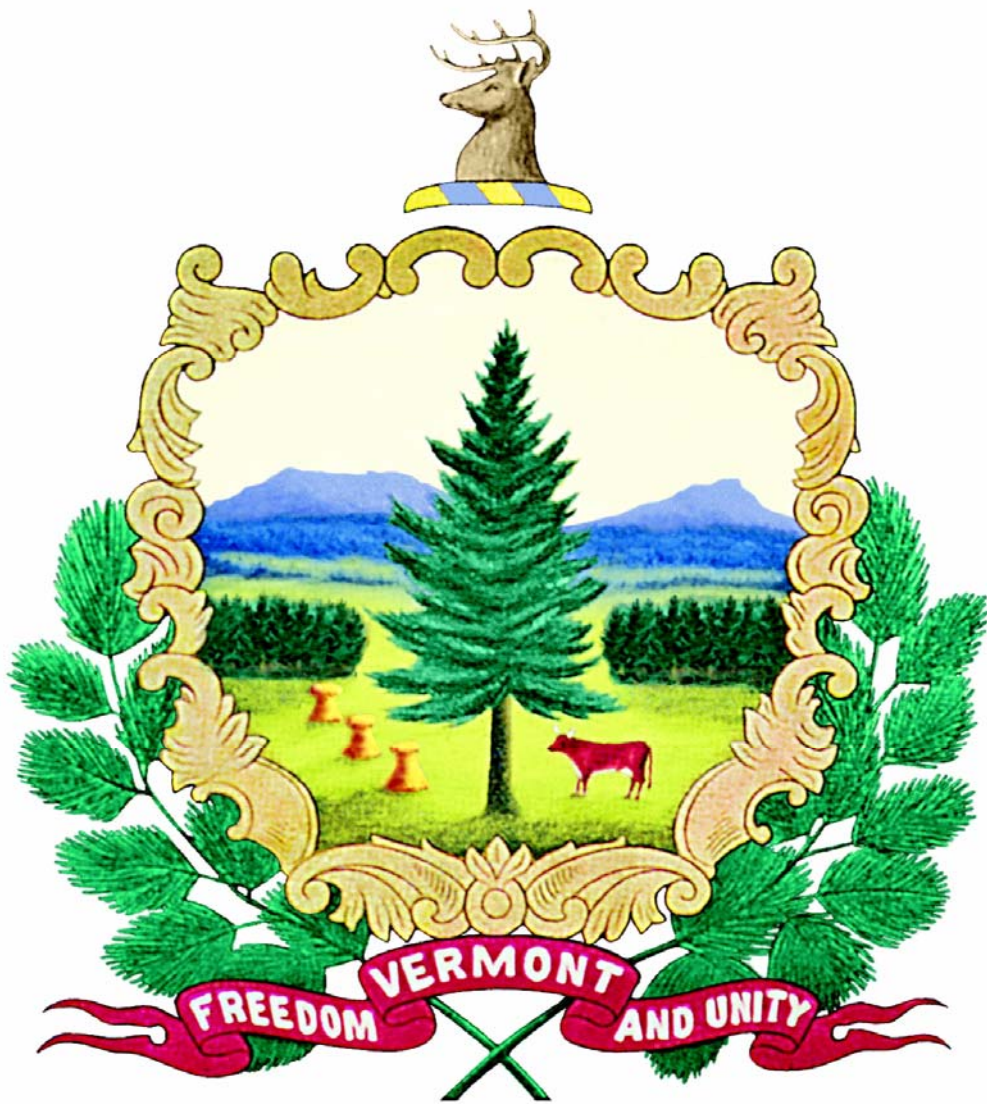
|  | <b>Vermont<br/>State<br/>Retirement<br/>System</b> | <b>Vermont<br/>State<br/>Defined<br/>Contribution<br/>Plan</b> | <b>State<br/>Teachers'<br/>Retirement<br/>System</b> |
|--|--|--|--|
| <b>Additions :</b>   |  |  |  |
| <u>Contributions</u>   |  |  |  |
| Employer.....  | \$ 24,394,933                                      | \$ 1,391,658   | \$ 20,446,282  |
| Plan member.....   | 12,171,186   | 557,333  | 18,820,703   |
| Transfers from other pension trust funds...                          | 813,168  | 28,813   | 438,166  |
| Transfers from non-state systems.....                                | -  | 99,082   | -  |
| <b>Total contributions.....</b>                                      | <b>37,379,287</b>                                  | <b>2,076,886</b>   | <b>39,705,151</b>                                    |
| <u>Investment Income:</u>  |  |  |  |
| Net appreciation (depreciation) in<br>fair value of investments..... | 19,007,904   | 110,371  | 26,284,023   |
| Dividends.....   | 9,832,017  | 700,940  | 12,567,873   |
| Interest income.....   | 14,294,382   | 2,574  | 17,304,661   |
| Securities lending income.....                                       | 767,219  | -  | 986,394  |
| Other income.....  | 212,076  | -  | 61,381   |
| <b>Total investment income.....</b>                                  | <b>44,113,598</b>                                  | <b>813,885</b>   | <b>57,204,332</b>                                    |
| <b>Less Investment Expenses</b>                                      |  |  |  |
| Investment managers and consultants....                              | 3,121,258  | -  | 3,923,991  |
| Securities lending expenses.....                                     | 557,124  | -  | 773,503  |
| <b>Total investment expenses.....</b>                                | <b>3,678,382</b>                                   | <b>0</b>   | <b>4,697,494</b>                                     |
| <b>Net investment income.....</b>                                    | <b>40,435,216</b>                                  | <b>813,885</b>   | <b>52,506,838</b>                                    |
| <b>Total additions.....</b>  | <b>77,814,503</b>                                  | <b>2,890,771</b>   | <b>92,211,989</b>                                    |
| <b>Deductions:</b>   |  |  |  |
| Retirement benefits.....   | 41,614,187   | 1,803,197  | 50,409,313   |
| Refunds of contributions.....  | 846,861  | -  | 968,668  |
| Death claims.....  | 77,103   | -  | 140,506  |
| Transfers to other pension trust funds.....                          | 369,383  | -  | 702,568  |
| Operating expenses.....  | 10,887,792   | 168,642  | 7,398,266  |
| <b>Total deductions.....</b>   | <b>53,795,326</b>                                  | <b>1,971,839</b>   | <b>59,619,321</b>                                    |
| <b>Change in net assets.....</b>                                     | <b>24,019,177</b>                                  | <b>918,932</b>   | <b>32,592,668</b>                                    |
| <b>Net assets held in trust for<br/>employees' pension benefits:</b> |  |  |  |
| <b>Beginning of year .....</b>                                       | <b>893,747,682</b>                                 | <b>26,002,011</b>  | <b>1,066,517,156</b>                                 |
| <b>End of year.....</b>  | <b>\$ 917,766,859</b>                              | <b>\$ 26,920,943</b>   | <b>\$1,099,109,824</b>                               |

| Single<br>Investment<br>Deposit<br>Account | Vermont<br>Municipal<br>Employees'<br>Retirement<br>System | Vermont<br>Municipal<br>Employees'<br>Defined<br>Contribution<br>Fund | Total<br>Pension<br>Funds |
|--|--|---|---------------------------|
| \$ -                                       | \$ 5,707,184   | \$ 440,071  | \$ 52,380,128             |
| -  | 5,000,479  | 442,375   | 36,992,076                |
| 13,853                                     | 294,188  | 30,455  | 1,618,643                 |
| -  | 17,561,264   | 4,131   | 17,664,477                |
| <b>13,853</b>                              | <b>28,563,115</b>  | <b>917,032</b>  | <b>108,655,324</b>        |
| 3,689,612                                  | (540,747)  | 117,268   | 48,668,431                |
| -  | 1,236,336  | 132,328   | 24,469,494                |
| 5,732,967                                  | 2,940,435  | 795   | 40,275,814                |
| -  | 99,559   | -   | 1,853,172                 |
| -  | 27,237   | -   | 300,694                   |
| <b>9,422,579</b>                           | <b>3,762,820</b>   | <b>250,391</b>  | <b>115,567,605</b>        |
| 304,030                                    | 1,046,256  | -   | 8,395,535                 |
| -  | 86,317   | -   | 1,416,944                 |
| <b>304,030</b>                             | <b>1,132,573</b>   | <b>0</b>  | <b>9,812,479</b>          |
| <b>9,118,549</b>                           | <b>2,630,247</b>   | <b>250,391</b>  | <b>105,755,126</b>        |
| <b>9,132,402</b>                           | <b>31,193,362</b>  | <b>1,167,423</b>  | <b>214,410,450</b>        |
| 5,842,081                                  | 4,929,747  | 46,274  | 104,644,799               |
| -  | 614,689  | -   | 2,430,218                 |
| -  | 24,481   | -   | 242,090                   |
| -  | 546,692  | -   | 1,618,643                 |
| -  | 118,038  | 78,545  | 18,651,283                |
| <b>5,842,081</b>                           | <b>6,233,647</b>   | <b>124,819</b>  | <b>127,587,033</b>        |
| <b>3,290,321</b>                           | <b>24,959,715</b>  | <b>1,042,604</b>  | <b>86,823,417</b>         |
| <b>103,497,863</b>                         | <b>172,534,823</b>   | <b>4,733,355</b>  | <b>2,267,032,890</b>      |
| <b>\$ 106,788,184</b>                      | <b>\$ 197,494,538</b>                                      | <b>\$ 5,775,959</b>   | <b>\$ 2,353,856,307</b>   |

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*Vermont*



***AGENCY FUNDS***

**STATE OF VERMONT**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | <u>Balance<br/>July 1, 2002</u> | <u>Additions</u>     | <u>Deductions</u>    | <u>Balance<br/>June 30, 2003</u> |
|--|---------------------------------|----------------------|----------------------|----------------------------------|
| <b>RETIREMENT SYSTEM CONTRIBUTIONS AND WITHHOLDINGS FUND</b>   |                                 |                      |                      |                                  |
| <b>ASSETS</b>  |                                 |                      |                      |                                  |
| Cash.....  | \$ -                            | \$ 37,863,010        | \$ 37,852,010        | \$ 11,000                        |
| Accounts receivable.....                                       | 5,490                           | 19,979               | 5,490                | 19,979                           |
| Total assets.....  | <u>\$ 5,490</u>                 | <u>\$ 37,882,989</u> | <u>\$ 37,857,500</u> | <u>\$ 30,979</u>                 |
| <b>LIABILITIES</b>   |                                 |                      |                      |                                  |
| Due to depositories.....                                       | \$ (793)                        | \$ 37,862,553        | \$ 37,851,217        | \$ 10,543                        |
| Due to other funds.....  | 793                             | 457                  | 793                  | 457                              |
| Interfund payable.....   | 5,490                           | 19,979               | 5,490                | 19,979                           |
| Total liabilities.....   | <u>\$ 5,490</u>                 | <u>\$ 37,882,989</u> | <u>\$ 37,857,500</u> | <u>\$ 30,979</u>                 |
| <b>FEDERAL INCOME TAX WITHHOLDINGS FUND</b>                    |                                 |                      |                      |                                  |
| <b>ASSETS</b>  |                                 |                      |                      |                                  |
| Cash.....  | \$ -                            | \$ 43,024,032        | \$ 43,024,032        | \$ -                             |
| Accounts receivable.....                                       | 33,906                          | 25,453               | 33,906               | 25,453                           |
| Total assets.....  | <u>\$ 33,906</u>                | <u>\$ 43,049,485</u> | <u>\$ 43,057,938</u> | <u>\$ 25,453</u>                 |
| <b>LIABILITIES</b>   |                                 |                      |                      |                                  |
| Due to depositories.....                                       | \$ (1,994)                      | \$ 43,022,984        | \$ 43,022,038        | \$ (1,048)                       |
| Due to other funds.....  | 1,994                           | 1,048                | 1,994                | 1,048                            |
| Interfund payable.....   | 33,906                          | 25,453               | 33,906               | 25,453                           |
| Total liabilities.....   | <u>\$ 33,906</u>                | <u>\$ 43,049,485</u> | <u>\$ 43,057,938</u> | <u>\$ 25,453</u>                 |
| <b>STATE INCOME TAX WITHHOLDINGS FUND</b>                      |                                 |                      |                      |                                  |
| <b>ASSETS</b>  |                                 |                      |                      |                                  |
| Cash.....  | \$ 4,286                        | \$ 11,453,971        | \$ 11,446,744        | \$ 11,513                        |
| Total assets.....  | <u>\$ 4,286</u>                 | <u>\$ 11,453,971</u> | <u>\$ 11,446,744</u> | <u>\$ 11,513</u>                 |
| <b>LIABILITIES</b>   |                                 |                      |                      |                                  |
| Due to depositories.....                                       | \$ 3,780                        | \$ 11,453,603        | \$ 11,446,238        | \$ 11,145                        |
| Due to other funds.....  | 506                             | 368                  | 506                  | 368                              |
| Total liabilities.....   | <u>\$ 4,286</u>                 | <u>\$ 11,453,971</u> | <u>\$ 11,446,744</u> | <u>\$ 11,513</u>                 |
| <b>SOCIAL SECURITY TAX CONTRIBUTIONS AND WITHHOLDINGS FUND</b> |                                 |                      |                      |                                  |
| <b>ASSETS</b>  |                                 |                      |                      |                                  |
| Cash.....  | \$ -                            | \$ 54,714,039        | \$ 54,714,039        | \$ -                             |
| Accounts receivable.....                                       | 88,295                          | 97,068               | 88,295               | 97,068                           |
| Total assets.....  | <u>\$ 88,295</u>                | <u>\$ 54,811,107</u> | <u>\$ 54,802,334</u> | <u>\$ 97,068</u>                 |
| <b>LIABILITIES</b>   |                                 |                      |                      |                                  |
| Due to depositories.....                                       | \$ (1,819)                      | \$ 54,713,190        | \$ 54,712,220        | \$ (849)                         |
| Due to other funds.....  | 1,819                           | 849                  | 1,819                | 849                              |
| Interfund payable.....   | 88,295                          | 97,068               | 88,295               | 97,068                           |
| Total liabilities.....   | <u>\$ 88,295</u>                | <u>\$ 54,811,107</u> | <u>\$ 54,802,334</u> | <u>\$ 97,068</u>                 |
| <b>EMPLOYEES CREDIT UNION WITHHOLDING FUND</b>                 |                                 |                      |                      |                                  |
| <b>ASSETS</b>  |                                 |                      |                      |                                  |
| Cash.....  | \$ 1,049                        | \$ 42,129,859        | \$ 42,129,959        | \$ 949                           |
| <b>LIABILITIES</b>   |                                 |                      |                      |                                  |
| Due to depositories.....                                       | \$ 1,049                        | \$ 42,129,859        | \$ 42,129,959        | \$ 949                           |

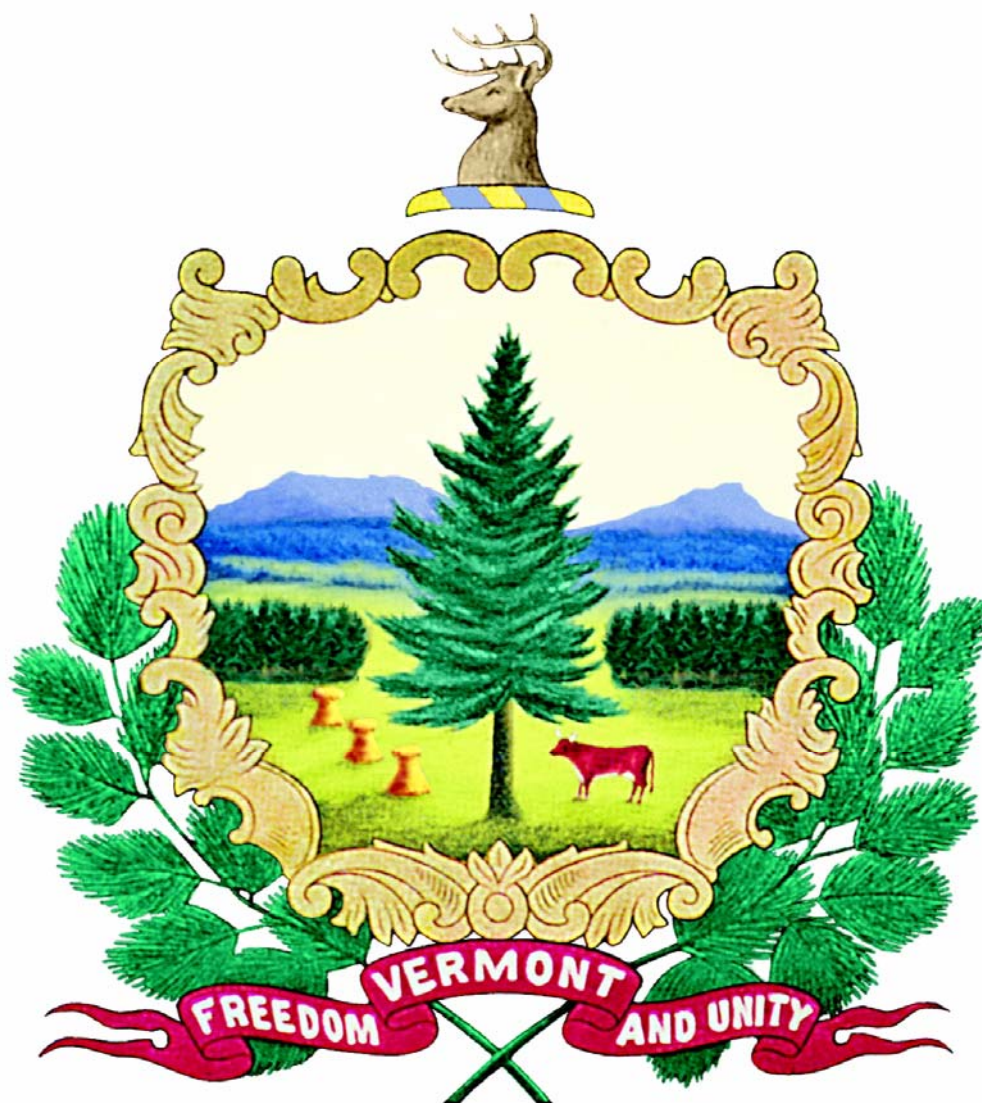


**STATE OF VERMONT**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | <u>Balance</u><br><u>July 1, 2002</u> | <u>Additions</u>      | <u>Deductions</u>     | <u>Balance</u><br><u>June 30, 2003</u> |
|--|---------------------------------------|-----------------------|-----------------------|--|
| <b>EMPLOYEES INSURANCE CONTRIBUTIONS AND WITHHOLDINGS FUND</b> |                                       |                       |                       |  |
| <b>ASSETS</b>  |                                       |                       |                       |  |
| Cash.....  | \$ 18,638                             | \$ 63,705,649         | \$ 63,639,983         | \$ 84,304                              |
| Accounts receivable.....                                       | 21,858                                | 15,644                | 21,858                | 15,644                                 |
| Due from other funds.....                                      | 192,352                               | -                     | 192,352               | -                                      |
| Total assets.....  | <u>\$ 232,848</u>                     | <u>\$ 63,721,293</u>  | <u>\$ 63,854,193</u>  | <u>\$ 99,948</u>                       |
| <b>LIABILITIES</b>   |                                       |                       |                       |  |
| Due to depositories.....                                       | \$ 230,175                            | \$ 63,704,007         | \$ 63,851,520         | \$ 82,662                              |
| Due to other funds.....  | 2,673                                 | 1,642                 | 2,673                 | 1,642                                  |
| Interfund payable.....   | -                                     | 15,644                | -                     | 15,644                                 |
| Total liabilities.....   | <u>\$ 232,848</u>                     | <u>\$ 63,721,293</u>  | <u>\$ 63,854,193</u>  | <u>\$ 99,948</u>                       |
| <b>EMPLOYEES DEFERRED INCOME WITHHOLDINGS FUND</b>             |                                       |                       |                       |  |
| <b>ASSETS</b>  |                                       |                       |                       |  |
| Cash.....  | \$ -                                  | \$ 12,456,616         | \$ 12,456,616         | \$ -                                   |
| Accounts receivable.....                                       | 2,181                                 | 127                   | -                     | 2,308                                  |
| Total assets.....  | <u>\$ 2,181</u>                       | <u>\$ 12,456,743</u>  | <u>\$ 12,456,616</u>  | <u>\$ 2,308</u>                        |
| <b>LIABILITIES</b>   |                                       |                       |                       |  |
| Due to depositories.....                                       | \$ -                                  | \$ 12,456,616         | \$ 12,456,616         | \$ -                                   |
| Interfund payable.....   | 2,181                                 | 127                   | -                     | 2,308                                  |
| Total liabilities.....   | <u>\$ 2,181</u>                       | <u>\$ 12,456,743</u>  | <u>\$ 12,456,616</u>  | <u>\$ 2,308</u>                        |
| <b>OTHER EMPLOYEE CONTRIBUTIONS AND WITHHOLDINGS FUND</b>      |                                       |                       |                       |  |
| <b>ASSETS</b>  |                                       |                       |                       |  |
| Cash.....  | \$ -                                  | \$ 4,937,325          | \$ 4,917,606          | \$ 19,719                              |
| Accounts receivable.....                                       | 50,331                                | 82,460                | 50,331                | 82,460                                 |
| Due from other funds.....                                      | -                                     | 219,745               | -                     | 219,745                                |
| Total assets.....  | <u>\$ 50,331</u>                      | <u>\$ 5,239,530</u>   | <u>\$ 4,967,937</u>   | <u>\$ 321,924</u>                      |
| <b>LIABILITIES</b>   |                                       |                       |                       |  |
| Due to depositories.....                                       | \$ -                                  | \$ 5,176,168          | \$ 4,917,606          | \$ 258,562                             |
| Due to other funds.....  | -                                     | 10                    | -                     | 10                                     |
| Interfund payable.....   | 50,331                                | 63,352                | 50,331                | 63,352                                 |
| Total liabilities.....   | <u>\$ 50,331</u>                      | <u>\$ 5,239,530</u>   | <u>\$ 4,967,937</u>   | <u>\$ 321,924</u>                      |
| <b>UNIDENTIFIED RECEIPTS FUND</b>                              |                                       |                       |                       |  |
| <b>ASSETS</b>  |                                       |                       |                       |  |
| Cash.....  | \$ (31,295)                           | \$ 178,567,089        | \$ 178,535,794        | \$ -                                   |
| Accounts receivable.....                                       | 366,800                               | 175,727               | 366,800               | 175,727                                |
| Due from other funds.....                                      | 107                                   | 2,150                 | 107                   | 2,150                                  |
| Total assets.....  | <u>\$ 335,612</u>                     | <u>\$ 178,744,966</u> | <u>\$ 178,902,701</u> | <u>\$ 177,877</u>                      |
| <b>LIABILITIES</b>   |                                       |                       |                       |  |
| Due to other funds.....  | \$ -                                  | \$ 178,569,239        | \$ 178,567,089        | \$ 2,150                               |
| Interfund payable.....   | 335,612                               | 175,727               | 335,612               | 175,727                                |
| Total liabilities.....   | <u>\$ 335,612</u>                     | <u>\$ 178,744,966</u> | <u>\$ 178,902,701</u> | <u>\$ 177,877</u>                      |

**STATE OF VERMONT**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | Balance<br>July 1, 2002 | Additions             | Deductions            | Balance<br>June 30, 2003 |
|---|-------------------------|-----------------------|-----------------------|--------------------------|
| <b>VENDOR AND OTHER DEPOSITS FUND</b>               |                         |                       |                       |                          |
| <b>ASSETS</b>                                       |                         |                       |                       |                          |
| Cash.....   | \$ 4,346,981            | \$ 13,984,370         | \$ 14,225,183         | \$ 4,106,168             |
| Taxes receivable.....                               | 737,248                 | 655,728               | -                     | 1,392,976                |
| Accounts receivable.....                            | -                       | 28,945                | -                     | 28,945                   |
| <b>Total assets.....</b>                            | <b>\$ 5,084,229</b>     | <b>\$ 14,669,043</b>  | <b>\$ 14,225,183</b>  | <b>\$ 5,528,089</b>      |
| <b>LIABILITIES</b>                                  |                         |                       |                       |                          |
| Amounts held in custody for others.....             | \$ 1,529,459            | \$ 2,136,974          | \$ 1,554,459          | \$ 2,111,974             |
| Due to other funds.....                             | 8,495                   | 6,012                 | 8,495                 | 6,012                    |
| Intergovernmental payable<br>other governments..... | 1,290,579               | 9,712,335             | 8,538,738             | 2,464,176                |
| Other liabilities.....                              | 2,255,696               | 2,784,777             | 4,123,491             | 916,982                  |
| Interfund payable.....                              | -                       | 28,945                | -                     | 28,945                   |
| <b>Total liabilities.....</b>                       | <b>\$ 5,084,229</b>     | <b>\$ 14,669,043</b>  | <b>\$ 14,225,183</b>  | <b>\$ 5,528,089</b>      |
| <b>CHILD SUPPORT COLLECTIONS FUND</b>               |                         |                       |                       |                          |
| <b>ASSETS</b>                                       |                         |                       |                       |                          |
| Cash.....   | \$ 11,944,142           | \$ 54,242,742         | \$ 53,609,477         | \$ 12,577,407            |
| Due from other funds.....                           | -                       | 2,367                 | -                     | 2,367                    |
| <b>Total assets.....</b>                            | <b>\$ 11,944,142</b>    | <b>\$ 54,245,109</b>  | <b>\$ 53,609,477</b>  | <b>\$ 12,579,774</b>     |
| <b>LIABILITIES</b>                                  |                         |                       |                       |                          |
| Due to other funds.....                             | \$ 4,658,902            | \$ 53,483             | \$ 34,645             | \$ 4,677,740             |
| Amount held in custody for others.....              | 7,285,240               | 54,191,626            | 53,574,832            | 7,902,034                |
| <b>Total liabilities.....</b>                       | <b>\$ 11,944,142</b>    | <b>\$ 54,245,109</b>  | <b>\$ 53,609,477</b>  | <b>\$ 12,579,774</b>     |
| <b>TOTALS - ALL AGENCY FUNDS</b>                    |                         |                       |                       |                          |
| <b>ASSETS</b>                                       |                         |                       |                       |                          |
| Cash.....   | \$ 16,283,801           | \$ 517,078,702        | \$ 516,551,443        | \$ 16,811,060            |
| Accounts receivable.....                            | 568,861                 | 445,403               | 566,680               | 447,584                  |
| Taxes receivable.....                               | 737,248                 | 655,728               | -                     | 1,392,976                |
| Due from other funds.....                           | 192,459                 | 224,262               | 192,459               | 224,262                  |
| <b>Total assets.....</b>                            | <b>\$ 17,782,369</b>    | <b>\$ 518,404,095</b> | <b>\$ 517,310,582</b> | <b>\$ 18,875,882</b>     |
| <b>LIABILITIES</b>                                  |                         |                       |                       |                          |
| Due to depositories.....                            | \$ 230,398              | \$ 270,518,980        | \$ 270,387,414        | \$ 361,964               |
| Due to other funds.....                             | 4,675,182               | 178,633,108           | 178,618,014           | 4,690,276                |
| Amounts held in custody for others.....             | 8,814,699               | 56,328,600            | 55,129,291            | 10,014,008               |
| Intergovernmental payable<br>other governments..... | 1,290,579               | 9,712,335             | 8,538,738             | 2,464,176                |
| Other liabilities.....                              | 2,255,696               | 2,784,777             | 4,123,491             | 916,982                  |
| Interfund payable.....                              | 515,815                 | 426,295               | 513,634               | 428,476                  |
| <b>Total liabilities.....</b>                       | <b>\$ 17,782,369</b>    | <b>\$ 518,404,095</b> | <b>\$ 517,310,582</b> | <b>\$ 18,875,882</b>     |



**NONMAJOR  
COMPONENT UNITS**

STATE OF VERMONT  
COMBINING STATEMENT OF NET ASSETS  
NONMAJOR COMPONENT UNITS  
June 30, 2003

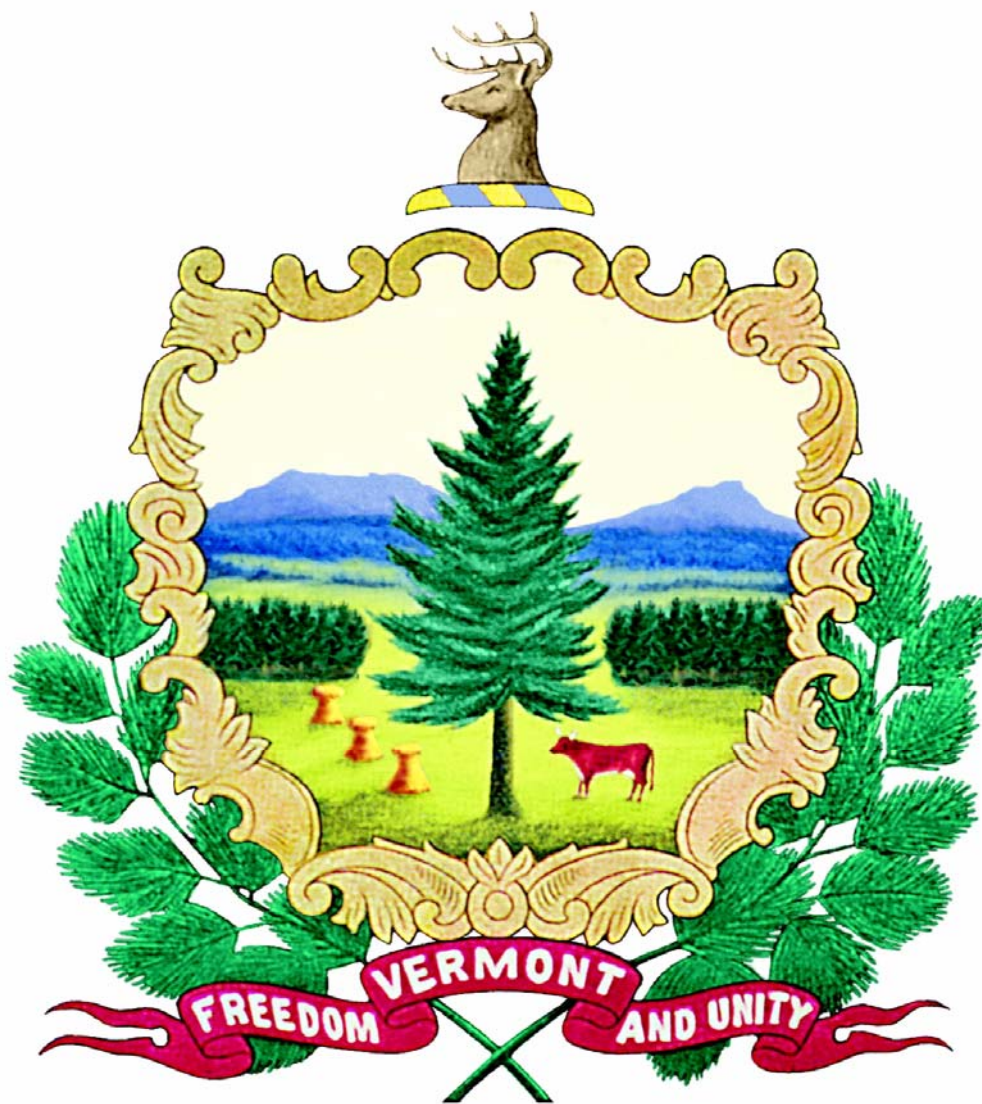
| ASSETS   | Vermont<br>Economic<br>Development<br>Authority<br>06/30/03 | Vermont<br>Housing &<br>Conservation<br>Board<br>06/30/03 | Vermont<br>Sustainable<br>Jobs<br>Fund<br>06/30/03 | Vermont<br>Municipal<br>Bond Bank<br>12/31/2002 |
|--|---|---|--|---|
| <b>ASSETS</b>  |   |   |  |   |
| Current Assets:  |   |   |  |   |
| Cash and cash equivalents.....                               | \$ 17,004,909   | \$ 12,411,332   | \$ 292,672   | \$ 4,286,723                                    |
| Investments.....   | 11,321,827  | 6,673,465   | -  | 5,976,850                                       |
| Accounts receivable.....                                     | -   | -   | -  | 6,777   |
| Accrued interest receivable - loans.....                     | 226,352   | 5,827,767   | -  | 2,306,512                                       |
| Accrued interest receivable - investments.....               | -   | 81,526  | -  | -   |
| Loans and notes receivable - current portion.....            | 11,681,717  | 71,792  | -  | 30,861,050                                      |
| Other receivables.....                                       | -   | 36,722  | -  | -   |
| Due from federal government.....                             | -   | 13,239,761  | 12,817   | -   |
| Due from primary government.....                             | -   | -   | -  | -   |
| Inventories (at cost).....                                   | -   | -   | -  | -   |
| Prepaid expenses.....  | -   | -   | 1,657  | -   |
| Other current assets.....                                    | 268,836   | -   | 680  | -   |
| <b>Total current assets.....</b>                             | <b>40,503,641</b>   | <b>38,342,365</b>   | <b>307,826</b>                                     | <b>43,437,912</b>                               |
| Restricted and Non-Current Assets:                           |   |   |  |   |
| Cash.....  | -   | 148,078   | -  | 4,148,828                                       |
| Investments.....   | 2,084,140   | -   | -  | 40,609,175                                      |
| Deferred bond issue costs.....                               | -   | -   | -  | 5,137,806                                       |
| Loans and notes receivable (net).....                        | 58,570,706  | 60,086,462  | -  | 338,701,776                                     |
| Other assets.....  | 21,900  | -   | -  | -   |
| <b>Total restricted &amp; noncurrent assets.....</b>         | <b>60,676,746</b>   | <b>60,234,540</b>   | <b>0</b>   | <b>388,597,585</b>                              |
| Capital Assets:  |   |   |  |   |
| Land.....  | -   | -   | -  | -   |
| Construction in process.....                                 | -   | -   | -  | -   |
| Building and leasehold improvements.....                     | -   | -   | -  | -   |
| Equipment, furniture and fixtures.....                       | 322,915   | 124,495   | 6,056  | -   |
| Accumulated depreciation.....                                | (245,704)   | (120,714)   | (6,056)  | -   |
| <b>Total capital assets, net of depreciation.....</b>        | <b>77,211</b>   | <b>3,781</b>  | <b>0</b>   | <b>0</b>  |
| <b>Total assets.....</b>                                     | <b>101,257,598</b>  | <b>98,580,686</b>   | <b>307,826</b>                                     | <b>432,035,497</b>                              |
| <b>LIABILITIES</b>   |   |   |  |   |
| Current Liabilities:   |   |   |  |   |
| Accounts payable.....  | 379,015   | 69,615  | 33,023   | 23,844  |
| Accrued salaries and benefits.....                           | -   | 198,104   | -  | -   |
| Accrued interest payable.....                                | 184,208   | 81,526  | -  | -   |
| Bond interest payable.....                                   | -   | -   | -  | 1,741,117                                       |
| Deferred revenue.....  | -   | -   | 122,210  | -   |
| Accrued arbitrage rebate.....                                | -   | -   | -  | 254,889   |
| Current portion - bonds and notes payable.....               | 46,443,348  | 6,673,465   | -  | 34,380,000                                      |
| Due to primary government.....                               | 5,425,674   | 2,806,037   | -  | -   |
| Escrowed cash deposits.....                                  | 175,521   | -   | -  | -   |
| Other current liabilities.....                               | -   | 10,154,578  | -  | -   |
| <b>Total current liabilities.....</b>                        | <b>52,607,766</b>   | <b>19,983,325</b>   | <b>155,233</b>                                     | <b>36,399,850</b>                               |
| Restricted and Non-Current Liabilities:                      |   |   |  |   |
| Bonds and notes payable.....                                 | 9,773,017   | 344,573   | -  | 375,611,256                                     |
| Accrued arbitrage rebate.....                                | -   | -   | -  | 796,626   |
| Other liabilities.....                                       | -   | -   | -  | 26,100  |
| Advances from primary government.....                        | 1,921,695   | -   | -  | -   |
| <b>Total liabilities payable from restricted assets.....</b> | <b>11,694,712</b>   | <b>344,573</b>  | <b>0</b>   | <b>376,433,982</b>                              |
| <b>Total liabilities.....</b>                                | <b>64,302,478</b>   | <b>20,327,898</b>   | <b>155,233</b>                                     | <b>412,833,832</b>                              |
| <b>NET ASSETS</b>  |   |   |  |   |
| Invested in capital assets, (net of related debt).....       | -   | 3,781   | -  | -   |
| Restricted.....  | 6,500,000   | 77,622,529  | -  | 10,549,696                                      |
| Unrestricted - designated.....                               | -   | -   | -  | -   |
| Unrestricted.....  | 30,455,120  | 626,478   | 152,593  | 8,651,969                                       |
| <b>Total net assets.....</b>                                 | <b>\$ 36,955,120</b>  | <b>\$ 78,252,788</b>                                      | <b>\$ 152,593</b>                                  | <b>\$ 19,201,665</b>                            |

| Vermont<br>Educational and<br>Health Buildings<br>Financing Agency<br>12/31/2002 | Vermont Center<br>For Geographic<br>Information<br>06/30/03 | Vermont<br>Transportation<br>Authority<br>06/30/03 | Vermont<br>Veteran's<br>Home<br>06/30/03 | Vermont<br>Rehabilitation<br>Corporation<br>06/30/03 | Total<br>Nonmajor<br>Component<br>Units |
|--|---|--|--|--|---|
| \$ 237,052   | \$ 95,960   | \$ 1,039   | \$ 438,907                               | \$ 43,750  | \$ 34,812,344                           |
| 995,995  | -   | -  | -  | -  | 24,968,137                              |
| -  | 30,203  | -  | 176,091                                  | -  | 213,071                                 |
| -  | -   | -  | -  | 39   | 8,360,670                               |
| -  | -   | -  | -  | -  | 81,526                                  |
| -  | -   | -  | -  | 7,838  | 42,622,397                              |
| -  | -   | -  | -  | -  | 36,722                                  |
| -  | -   | 46,915   | 1,393,753                                | -  | 14,693,246                              |
| -  | -   | 41,655   | -  | -  | 41,655                                  |
| -  | -   | -  | 130,255                                  | -  | 130,255                                 |
| -  | 8,725   | -  | -  | -  | 10,382                                  |
| -  | -   | -  | -  | -  | 269,516                                 |
| <b>1,233,047</b>   | <b>134,888</b>  | <b>89,609</b>                                      | <b>2,139,006</b>                         | <b>51,627</b>  | <b>126,239,921</b>                      |
| -  | -   | -  | -  | -  | 4,296,906                               |
| -  | -   | -  | -  | -  | 42,693,315                              |
| -  | -   | -  | -  | -  | 5,137,806                               |
| -  | -   | -  | -  | 181,843  | 457,540,787                             |
| -  | -   | -  | 4,818                                    | -  | 26,718                                  |
| <b>0</b>   | <b>0</b>  | <b>0</b>   | <b>4,818</b>                             | <b>181,843</b>                                       | <b>509,695,532</b>                      |
| -  | -   | -  | 172,561                                  | -  | 172,561                                 |
| -  | -   | -  | 12,157                                   | -  | 12,157                                  |
| -  | -   | 1,500,000  | 11,932,272                               | -  | 13,432,272                              |
| -  | 117,299   | 1,030,861  | 1,807,657                                | -  | 3,409,283                               |
| -  | (101,897)   | (189,858)  | (9,516,089)                              | -  | (10,180,318)                            |
| <b>0</b>   | <b>15,402</b>   | <b>2,341,003</b>                                   | <b>4,408,558</b>                         | <b>0</b>   | <b>6,845,955</b>                        |
| <b>1,233,047</b>   | <b>150,290</b>  | <b>2,430,612</b>                                   | <b>6,552,382</b>                         | <b>233,470</b>                                       | <b>642,781,408</b>                      |
| 18,251   | 796   | 81,944   | 408,456                                  | -  | 1,014,944                               |
| -  | 23,513  | 6,626  | 893,135                                  | -  | 1,121,378                               |
| -  | -   | -  | -  | -  | 265,734                                 |
| -  | -   | -  | -  | -  | 1,741,117                               |
| -  | 31,802  | -  | 23,560                                   | -  | 177,572                                 |
| -  | -   | -  | -  | -  | 254,889                                 |
| -  | -   | -  | -  | -  | 87,496,813                              |
| -  | -   | -  | -  | -  | 8,231,711                               |
| -  | -   | -  | -  | -  | 175,521                                 |
| -  | -   | -  | 5,750                                    | -  | 10,160,328                              |
| <b>18,251</b>  | <b>56,111</b>   | <b>88,570</b>                                      | <b>1,330,901</b>                         | <b>0</b>   | <b>110,640,007</b>                      |
| -  | -   | -  | -  | -  | 385,728,846                             |
| -  | -   | -  | -  | -  | 796,626                                 |
| -  | -   | -  | 4,365                                    | -  | 30,465                                  |
| -  | -   | -  | -  | -  | 1,921,695                               |
| <b>0</b>   | <b>0</b>  | <b>0</b>   | <b>4,365</b>                             | <b>0</b>   | <b>388,477,632</b>                      |
| <b>18,251</b>  | <b>56,111</b>   | <b>88,570</b>                                      | <b>1,335,266</b>                         | <b>0</b>   | <b>499,117,639</b>                      |
| -  | -   | 2,341,003  | 4,408,552                                | -  | 6,753,336                               |
| -  | -   | -  | -  | -  | 94,672,225                              |
| -  | 30,000  | -  | -  | -  | 30,000                                  |
| 1,214,796  | 64,179  | 1,039  | 808,564                                  | 233,470  | 42,208,208                              |
| <b>\$ 1,214,796</b>  | <b>\$ 94,179</b>  | <b>\$ 2,342,042</b>                                | <b>\$ 5,217,116</b>                      | <b>\$ 233,470</b>                                    | <b>\$ 143,663,769</b>                   |

**STATE OF VERMONT  
COMBINING STATEMENT OF ACTIVITIES  
NONMAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2003**

| <b>Function/Program</b>  | <b>Expenses</b>      | <b>Program Revenues</b>     |   | <b>Net (Expense) Revenue and Changes in Net Assets</b> |
|--|----------------------|-----------------------------|---|--|
|  |                      | <b>Charges for Services</b> | <b>Operating Grants and Contributions</b> |  |
| Vermont Economic Development Authority.....                    | \$ 4,090,161         | \$ 2,632,770                | \$ 58,632                                 | \$ (1,398,759)   |
| Vermont Housing & Conservation Trust.....                      | 17,886,933           | -                           | 13,574,184                                | (4,312,749)  |
| Vermont Sustainable Jobs Fund.....                             | 546,506              | -                           | 557,736                                   | 11,230   |
| Vermont Municipal Bond Bank.....                               | 22,936,324           | 20,724,985                  | -   | (2,211,339)  |
| Vermont Educational and Health Buildings Financing Agency..... | 149,279              | 104,635                     | -   | (44,644)   |
| Vermont Center for Geographic Information.....                 | 454,263              | 172,133                     | 282,615                                   | 485  |
| Vermont Transportation Authority.....                          | 2,011,268            | 41,469                      | 1,593,813                                 | (375,986)  |
| Vermont Veterans' Home.....                                    | 13,270,620           | 13,447,216                  | 2,767                                     | 179,363  |
| Vermont Rehabilitation Corporation.....                        | 44,630               | 358                         | -   | (44,272)   |
| <b>Total nonmajor component units.....</b>                     | <b>\$ 61,389,984</b> | <b>\$ 37,123,566</b>        | <b>\$ 16,069,747</b>                      | <b>(8,196,671)</b>                                     |

|                                       |                       |
|---------------------------------------|-----------------------|
| General Revenues:                     |                       |
| Property transfer tax.....            | 11,088,000            |
| Investment income.....                | 9,027,804             |
| Miscellaneous.....                    | 62,323                |
| Total general revenues.....           | <u>20,178,127</u>     |
| Extraordinary Items:                  |                       |
| Gain on forgiveness of debt.....      | 7,500,000             |
| Loss on extinguishment of debt.....   | (755,815)             |
| Total extraordinary items.....        | <u>6,744,185</u>      |
| Changes in net assets.....            | 18,725,641            |
| Net assets - beginning, restated..... | <u>124,938,128</u>    |
| Net assets - ending.....              | <u>\$ 143,663,769</u> |



**STATISTICAL INFORMATION  
(UNAUDITED)**

**STATE OF VERMONT**  
**REVENUES BY SOURCE**  
**MAJOR GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN FISCAL YEARS**  
**(Expressed in Thousands)**  
**FOR THE YEAR ENDED JUNE 30**

| <b>SOURCE</b>   | <b>2003</b>         | <b>2002</b>         | <b>2001</b>         | <b>2000</b>         |
|---|---------------------|---------------------|---------------------|---------------------|
| Taxes.....  | \$ 1,614,229        | \$ 1,599,103        | \$ 1,590,023        | \$ 1,529,513        |
| Licenses, Fees and Fines.....                               | 128,391             | 109,914             | 115,679             | 112,416             |
| Interest on Investments.....                                | 4,848               | 6,273               | 12,814              | 11,549              |
| Federal.....  | 1,032,080           | 960,321             | 849,191             | 847,345             |
| Departmental Services.....                                  | 13,966              | 15,528              | 10,862              | 17,276              |
| Other.....  | 107,122             | 99,858              | 56,032              | 48,706              |
| <b>Total General and Special Revenue Fund Revenues.....</b> | <b>\$ 2,900,636</b> | <b>\$ 2,790,997</b> | <b>\$ 2,634,601</b> | <b>\$ 2,566,805</b> |

**STATE OF VERMONT**  
**EXPENDITURES BY FUNCTION**  
**MAJOR GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN FISCAL YEARS**  
**(Expressed in Thousands)**  
**FOR THE YEAR ENDED JUNE 30**

| <b>FUNCTION</b>   | <b>2003</b>         | <b>2002</b>         | <b>2001</b>         | <b>2000</b>         |
|---|---------------------|---------------------|---------------------|---------------------|
| General Government.....   | \$ 56,610           | \$ 71,395           | \$ 80,716           | \$ 65,444           |
| Protection.....   | 184,258             | 174,438             | 137,703             | 128,521             |
| Human Services.....   | 1,200,621           | 1,064,296           | 909,237             | 909,481             |
| Employment and Training.....                                    | 27,905              | 26,285              | 25,999              | 27,631              |
| General Education.(1).....                                      | 1,066,772           | 1,020,679           | 883,908             | 884,919             |
| Natural Resources.....  | 70,935              | 73,883              | 79,497              | 81,006              |
| Development.....  | 32,964              | 34,095              | 33,747              | 30,167              |
| Transportation.....   | 284,978             | 311,109             | 294,266             | 266,797             |
| Debt Service.....   | 73,214              | 69,215              | 73,896              | 74,855              |
| Other .....   | 1,898               | 2,002               | 13,390              | 6,063               |
| <b>Total General and Special Revenue Fund Expenditures.....</b> | <b>\$ 3,000,155</b> | <b>\$ 2,847,397</b> | <b>\$ 2,532,359</b> | <b>\$ 2,474,884</b> |

- (1) Beginning in fiscal year 1995, payments for higher education have been reclassified from expenditures to transfers to component units.
- (2) Beginning with fiscal year 1996, all figures are reported on the modified accrual basis as compared to the cash basis for fiscal years 1990 through 1995.
- (3) Beginning in 1999, the new Education Fund is included in the above schedules.
- (4) Beginning with fiscal year 2002, the Fish & Wildlife fund is not included as it is not reported as a major governmental fund.



|    | <b>1999</b>      | <b>1998</b>      | <b>1997</b>      | <b>1996</b>      | <b>1995</b>      | <b>1994</b>      |
|----|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ | 1,092,581        | \$ 981,170       | \$ 867,845       | \$ 794,815       | \$ 741,639       | \$ 764,862       |
|    | 105,770          | 99,334           | 94,709           | 93,207           | 88,076           | 81,896           |
|    | 9,410            | 7,217            | 9,524            | 8,105            | 7,066            | 2,984            |
|    | 752,470          | 690,679          | 599,699          | 551,037          | 536,122          | 522,770          |
|    | 15,821           | 18,156           | 17,899           | 23,829           | 42,510           | 53,225           |
|    | 51,179           | 66,979           | 63,293           | 63,426           | 79,119           | 95,287           |
| \$ | <b>2,027,231</b> | <b>1,863,535</b> | <b>1,652,969</b> | <b>1,534,419</b> | <b>1,494,532</b> | <b>1,521,024</b> |

|    | <b>1999</b>      | <b>1998</b>      | <b>1997</b>      | <b>1996</b>      | <b>1995</b>      | <b>1994</b>      |
|----|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ | 57,953           | \$ 111,280       | \$ 74,550        | \$ 72,068        | \$ 68,552        | \$ 81,628        |
|    | 125,349          | 113,118          | 101,657          | 99,908           | 93,235           | 86,578           |
|    | 822,652          | 770,663          | 717,400          | 670,388          | 655,767          | 613,161          |
|    | 25,998           | 23,927           | 19,193           | 21,530           | 21,893           | 21,264           |
|    | 486,572          | 304,217          | 289,016          | 272,189          | 271,502          | 330,736          |
|    | 71,088           | 57,898           | 48,842           | 48,163           | 50,072           | 44,103           |
|    | 40,296           | 32,366           | 24,274           | 22,518           | 20,316           | 30,650           |
|    | 245,902          | 228,550          | 189,366          | 192,241          | 180,768          | 192,251          |
|    | 72,067           | 69,952           | 68,335           | 66,519           | 58,672           | 51,505           |
|    | 2,823            | 7,135            | 15,609           | 11,535           | 29,997           | 33,092           |
| \$ | <b>1,950,700</b> | <b>1,719,106</b> | <b>1,548,242</b> | <b>1,477,059</b> | <b>1,450,774</b> | <b>1,484,968</b> |

## STATE INDEBTEDNESS

### State Indebtedness and Procedure for Authorization

The State has no constitutional or other limit on its power to issue obligations or incur indebtedness besides borrowing only for public purposes. In 1989, the Institution Committees of the House and Senate recommended the creation of a Capital Debt Affordability Advisory Committee responsible for overseeing long-term capital planning for the State. The Committee was created by the 1990 General Assembly. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May and June preceding such fiscal year, or in subsequent fiscal years.

The State Constitution does not contain provisions requiring submission of the question of incurring indebtedness to a public referendum. The authorization and issuance of State debt, including the purpose, amount, and nature thereof, the method and the manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The State's Public Improvement bonds and the State's Transportation and Highway bonds are paid respectively from the State's General Fund and Transportation Fund.

Pursuant to various appropriation acts, the State has authorized and issued general obligation bonds for a variety of projects or purposes. Each appropriation act usually specifies projects or purposes and the amount of General Fund or Transportation Fund bonds to be issued, and provides that General Fund or Transportation Fund bonds shall be issued in accordance with the Debts and Claims provisions of the General Obligation Bond Law.

Pursuant to the Refunding Bond Act, the State has authorized the issuance of general obligation bonds to refund or to advance refund all or any portion of one or more issues of outstanding general obligation bonds. Most provisions of the General Obligation Bond Law apply to the issuance of such refunding bonds.

In general, the State has borrowed money by issuing general obligation bonds and notes for the payment of which the full faith and credit of the State are pledged. The State, however, also has established certain statewide authorities which have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability.

There are no State constitutional provisions limiting the power of the General Assembly to impose any taxes on property or income in order to pay debt service on general obligation indebtedness. There are also no constitutional provisions limiting the power of the General Assembly to enact liens on or pledges of State revenues or taxes or the establishment of priorities, for payment of such debt service. There are no express statutory provisions establishing any priorities in favor of holders of general obligation indebtedness over other valid claims against the State.

The General Assembly has established by statute various general requirements for the issuance of general notes or bonds. The State Treasurer, with notification to the Governor, may issue notes or other similar obligations including commercial paper in order to raise funds to pay the expenses of government for which appropriations have been made but for which anticipated revenues have not been received, to defray accumulated State deficits and in anticipation of bonds. The State Treasurer, with the approval of the Governor, is authorized to issue and sell bonds that mature not later than twenty years after the date of such bonds and, except for capital appreciation bonds, such bonds must be payable in substantially equal or diminishing amounts annually. Under the General Obligation Bond Law, except with respect to refunding bonds, the first of such annual payments is to be made not later than five years after the date of the bonds. All terms of the bonds shall be determined by the State Treasurer with the approval of the Governor as he or she may deem for the best interests of the State.

In 2001, the General Assembly added statutory provisions that require any entity that pays a majority of its operating expense in any fiscal year with money appropriated by the State to notify and obtain the approval of the State Treasurer and Governor prior to incurring any debt including but not limited to, debt incurred through the issuance of bonds, notes, bank loans, mortgages, lease-purchase contracts and capital leases. In 2002, the General Assembly amended this provision to exclude municipalities from the approval requirement, to establish a borrowing threshold of one million dollars before approval is required and to clarify that the amounts deemed appropriated do not include non-discretionary federal funds.

The State Treasurer is directed by General Obligation Bond Law to pay the interest or investment return on and principal or maturity value of bonds when due "without further order or authority" and to pay the interest on and principal of notes, and expenses of preparing, issuing and marketing of such notes when due "without further order or authority" to the extent not already provided, the amount necessary each year to pay the maturing principal or maturity value of and interest or investment return on bonds is required by statute to be included in and made a part of the annual appropriations bill for the expense of State government, and such principal or maturity value of and interest or investment return on bonds as may come due before appropriations for the payment thereof have been made is to be paid from the General Fund or from the Transportation Fund.

The doctrine of sovereign immunity (the sovereign right of the State not to be sued) applies to the State. The provisions of the General Obligations Bond Law above recited do not constitute, in the opinion of bond counsel express consent by the State to be sued by a bondholder or a note holder, although such consent might be so construed by force of necessary implication. The provision referred to above contained in the General Obligation Bond Law appears, however, to impose a legal duty on the State Treasurer to pay principal of and interest on the bonds and on other bonds and notes when due, either from the General Fund, the Transportation Fund or from amounts appropriated therefore by the General Assembly.

Under the General Obligation Bond Law, the State Treasurer has the explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations if amounts in the General Fund or Transportation Fund are insufficient. In the event of failure by the State to make such payments when due, it would appear that a bondholder may sue the State Treasurer to compel such payment from any moneys available. Under this principle, sovereign immunity would not bar a suit to compel the disbursement of State monies when a State law imposes a duty to pay.

The State has never defaulted on the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

## **Debt Statement**

The following table sets forth as of the dates indicated the outstanding general obligation bonded indebtedness, Contingent Liabilities and Lease Purchase Obligations of the State. For the first time, the net tax supported debt includes the Vermont Education and Health Buildings Finance Agency Revenue Bonds (Vermont Council of Development and Mental Health Services Acquisition Program) Series 1999A and Series 1999B that were sold during fiscal year 1999. The Series 1999A bonds are tax-exempt obligations issued in the initial par amount of \$7,125,000 and the Series 1999B are taxable obligations in the initial par amount of \$385,000. The State provides approximately 80% financial support for the Program.

**DEBT STATEMENT**  
**As Of June 30, 2003**  
**(In Thousands Of Dollars)**

|                                   |                   |
|-----------------------------------|-------------------|
| <u>General Obligation Bonds*:</u> |                   |
| General Fund                      | \$ 418,304        |
| Transportation Fund               | 13,049            |
| Special Fund                      | 16,895            |
| <br>                              |                   |
| <u>Contingent Liabilities</u>     |                   |
| VEDA Mortgage Insurance Program   | 5,098             |
| VEDA Financial Access Program     | 915               |
| <br>                              |                   |
| <u>Reserve Fund Commitments</u>   |                   |
| Vermont Municipal Bond Bank       | 415,730           |
| Vermont Housing Finance Agency    | 75,940            |
| VEDA Indebtedness                 | 55,000            |
|                                   | <hr/>             |
| Gross Direct and Contingent Debt  | 1,000,931         |
| <br>                              |                   |
| <u>Less:</u>                      |                   |
| Contingent Liabilities            | (6,013)           |
| Reserve Fund Commitments          | (546,670)         |
|                                   | <hr/>             |
| Net Tax Supported Debt            | <u>\$ 448,248</u> |

\*Excludes general obligation bonds which were refunded and the accretion in the value of capital appreciation bonds.

RATIO OF GENERAL OBLIGATION BONDED DEBT TO ASSESSED TAXABLE PROPERTY  
VALUE AND GENERAL OBLIGATION BONDED DEBT PER CAPITA  
LAST TEN FISCAL YEARS

| <u>Year</u> | <u>Population<br/>(1000's) (1)</u> | <u>Assessed Value<br/>(Billions) (2)</u> | <u>Bonded Debt<br/>(1000's) (3)</u> | <u>Bonded Debt</u>                 |                       |
|-------------|------------------------------------|--|-------------------------------------|------------------------------------|-----------------------|
|             |                                    |  |                                     | <u>Ratio To<br/>Assessed Value</u> | <u>Per<br/>Capita</u> |
| 2003        | 619                                | 41.57                                    | 473,786                             | 1.14%                              | 765                   |
| 2002        | 617                                | 38.99                                    | 486,465                             | 1.25%                              | 788                   |
| 2001        | 613                                | 37.41                                    | 480,443                             | 1.28%                              | 784                   |
| 2000        | 610                                | 36.27                                    | 527,300                             | 1.45%                              | 864                   |
| 1999        | 594                                | 35.5                                     | 537,791                             | 1.51%                              | 905                   |
| 1998        | 592                                | 35.99                                    | 581,990                             | 1.62%                              | 983                   |
| 1997        | 589                                | 34.80                                    | 555,905                             | 1.60%                              | 944                   |
| 1996        | 586                                | 34.30                                    | 543,800                             | 1.59%                              | 928                   |
| 1995        | 585                                | 34.23                                    | 536,625                             | 1.57%                              | 917                   |
| 1994        | 582                                | 33.52                                    | 432,764                             | 1.29%                              | 746                   |

(1) U.S. Department of Commerce - Bureau of Economic Analysis

(2) Vermont Tax Department, Division of Property Valuation and Review, Annual Report

(3) Annual Report of Commissioner of Finance and Management

NOTE: Since 1987, the State's property values have been equalized annually as of January 1 for property values as of April 1 of the previous year for purposes of distributions to and assessments upon municipalities.

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
GENERAL BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES

| Fiscal<br>Year | Total Principal<br>and Interest<br>Paid | Total<br>General Fund<br>Expenditures | Percent of<br>Debt Service to<br>General Fund<br>Expenditures |
|----------------|---|---------------------------------------|---|
| 2003           | \$ 67,902,550                           | \$ 588,984,890                        | 11.5%   |
| 2002           | 63,899,370                              | 650,765,001                           | 9.8%  |
| 2001           | 68,376,276                              | 554,819,262                           | 12.3%   |
| 2000           | 68,617,331                              | 531,022,437                           | 12.9%   |
| 1999           | 66,056,281                              | 483,978,505                           | 13.6%   |
| 1998           | 66,073,612                              | 674,868,655                           | 9.8%  |
| 1997           | 64,049,337                              | 632,767,461                           | 10.1%   |
| 1996           | 61,494,937                              | 624,733,701                           | 9.8%  |
| 1995           | 53,018,022                              | 614,895,686                           | 8.6%  |
| 1994           | 44,190,968                              | 638,872,825                           | 6.9%  |

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
TRANSPORTATION BONDED DEBT TO TOTAL TRANSPORTATION FUND EXPENDITURES

| Fiscal<br>Year | Total Principal<br>and Interest<br>Paid | Total<br>Transportation Fund<br>Expenditures | Percent of<br>Debt Service to<br>Transportation Fund<br>Expenditures |
|----------------|---|--|--|
| 2003           | \$ 2,820,399                            | \$ 337,098,500                               | 0.8%   |
| 2002           | 2,910,054                               | 370,338,943                                  | 0.8%   |
| 2001           | 3,131,320                               | 345,005,330                                  | 0.9%   |
| 2000           | 3,789,207                               | 318,156,255                                  | 1.2%   |
| 1999           | 3,844,747                               | 273,670,237                                  | 1.4%   |
| 1998           | 3,903,053                               | 257,410,313                                  | 1.5%   |
| 1997           | 4,422,889                               | 227,054,831                                  | 1.9%   |
| 1996           | 5,109,202                               | 221,500,451                                  | 2.3%   |
| 1995           | 5,653,983                               | 212,260,877                                  | 2.7%   |
| 1994           | 5,428,320                               | 220,123,872                                  | 2.5%   |

The figures shown above are actual cash paid out, which are different than the GAAP based figures reported on the financial statements.

PROPERTY VALUES AND TAXES IN VERMONT  
Last Ten Fiscal Years

Property Valuation

From 1987 to 1992, the State's property values were equalized annually on January 1 for property values as of April 1 of the previous calendar year by the Vermont Tax Department, Division of Property Valuation and Review, for purposes of distributions to and assessments upon, municipalities. Prior to 1987 and during the years 1992 through 1996, values were equalized on an annual basis. With the passage of Act 60 of the 1997 Legislative session, the values will continue to be equalized on an annual basis which will make available more current data for the calculations of municipalities' school tax liabilities and school aid.

The following table sets forth an abbreviated history of property values and taxes in Vermont for the period April, 1994 to the present (in millions of dollars.)

| Years | Equalized<br>Grand<br>List (1) | Grand<br>List (2) | Total<br>Taxes (3) | School<br>Taxes (4) | Total<br>Effective<br>Tax Rate (5) | School<br>Effective<br>Tax Rate (6) |
|-------|--------------------------------|-------------------|--------------------|---------------------|------------------------------------|-------------------------------------|
| 2003  | \$ 499.6                       | \$ 423.2          | \$ 1010.7          | \$ 741.6            | \$ 2.03                            | \$ 1.52                             |
| 2002  | 457.7                          | 397.9             | 945.9              | 687.2               | 2.08                               | 1.54                                |
| 2001  | 429.3                          | 386.5             | 869.6              | 621.3               | 2.05                               | 1.50                                |
| 2000  | 404.9                          | 375.4             | 816.0              | 580.4               | 2.06                               | 1.50                                |
| 1999  | 381.7                          | 359.9             | 712.3              | 493.2               | 1.93                               | 1.37                                |
| 1998  | 376.3                          | 348.0             | 704.1              | 499.9               | 1.85                               | 1.33                                |
| 1997  | 376.3                          | 343.0             | 678.7              | 483.4               | 1.85                               | 1.33                                |
| 1996  | -                              | 342.0             | 661.1              | 460.2               | 1.76                               | 1.22                                |
| 1995  | 376.0                          | 335.0             | 634.3              | 435.5               | 1.76                               | 1.22                                |
| 1994  | -                              | 313.0             | 599.8              | 412.1               | 1.64                               | 1.13                                |

(1) Equalized Municipal Grand List formerly called Aggregate Fair Market Value: 1% of equalized value.

(2) Municipal Grand List used for tax assessments: 1% of the listed value.

(3) Total Taxes: Total taxes assessed.

(4) School Taxes: portion of total taxes assessed raised for schools.

(5) Total Effective Tax Rate: estimate of what total tax rate per \$100 of equalized value would be if all property was assessed at 100% of value.

(6) School Effective Tax Rate: estimate of what school tax rate per \$100 of equalized value would be if all property was assessed at 100% of value.

SOURCE: Vermont Tax Department, Division of Property Valuation and Review, Annual Report.

Demographic Statistics  
Last Ten Years  
Employment Statistics

| Year | Population<br>(000)<br>(2) | Per Capita<br>Income (a)<br>Year Ended<br>12/31<br>(1) | Average<br>Labor<br>Force<br>(000)<br>(3) | Employment<br>(000)<br>(3) | Average<br>Annual<br>Unemployment Rate<br>(3) |
|------|----------------------------|--|---|----------------------------|---|
| 2003 | 619                        | 30,740   | 351                                       | 334                        | 4.8%  |
| 2002 | 617                        | 29,764   | 346                                       | 333                        | 3.8%  |
| 2001 | 613                        | 28,594   | 344                                       | 329                        | 4.3%  |
| 2000 | 610                        | 27,376   | 335                                       | 323                        | 3.6%  |
| 1999 | 594                        | 25,705   | 332                                       | 322                        | 3.0%  |
| 1998 | 591                        | 24,547   | 330                                       | 319                        | 3.4%  |
| 1997 | 589                        | 23,026   | 327                                       | 313                        | 4.4%  |
| 1996 | 586                        | 22,019   | 324                                       | 309                        | 4.6%  |
| 1995 | 585                        | 21,135   | 319                                       | 305                        | 4.2%  |
| 1994 | 580                        | 20,379   | 315                                       | 300                        | 4.7%  |

Sources:

- (1) U.S. Department of Commerce - Bureau of Economic Analysis
- (2) U.S. Department of Commerce - Bureau of Labor Statistics
- (3) Vermont Department of Employment and Training



The following table sets forth the State's non-agricultural wage and salary employment by industry for calander years 2001 through 2003.

**Vermont Non-Agricultural Wage and Salary Employment by Industry (1)**

|                                    | 2001<br>Employment | Percent<br>Of Total | 2002<br>Employment | Percent<br>Of Total | 2003<br>Employment | Percent<br>Of Total |
|------------------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
| <b>GOODS PRODUCING:</b>            |                    |                     |                    |                     |                    |                     |
| Manufacturing Durable Goods        | 33,450             | 11.1%               | 29,300             | 9.8%                | 26,850             | 9.0%                |
| Manufacturing Non-Durable Goods    | 12,100             | 4.0%                | 11,300             | 3.8%                | 10,750             | 3.6%                |
| Construction                       | 15,200             | 5.0%                | 14,850             | 5.0%                | 15,300             | 5.1%                |
| Natural Resouces & Mining          | 1,100              | 0.4%                | 1,000              | 0.3%                | 950                | 0.3%                |
| <b>SERVICE PROVIDING:</b>          |                    |                     |                    |                     |                    |                     |
| Wholesale                          | 10,050             | 3.3%                | 10,050             | 3.4%                | 10,250             | 3.4%                |
| Retail                             | 39,900             | 13.2%               | 40,100             | 13.4%               | 39,200             | 13.1%               |
| Utilities                          | 1,650              | 0.5%                | 1,700              | 0.6%                | 1,750              | 0.6%                |
| Trnsportation & Warehousing        | 7,000              | 2.3%                | 6,950              | 2.3%                | 6,800              | 2.3%                |
| Information                        | 6,800              | 2.3%                | 6,700              | 2.2%                | 6,500              | 2.2%                |
| Financial Activities               | 13,150             | 4.4%                | 13,200             | 4.4%                | 13,200             | 4.4%                |
| Professional and Business Services | 20,700             | 6.9%                | 20,400             | 6.8%                | 20,300             | 6.8%                |
| Educational Services               | 12,050             | 4.0%                | 12,350             | 4.1%                | 12,550             | 4.2%                |
| Healthcare & Social Assistance     | 35,850             | 11.9%               | 37,950             | 12.7%               | 39,800             | 13.3%               |
| Leisure & Hospitality              | 32,900             | 10.9%               | 33,100             | 11.0%               | 32,650             | 10.9%               |
| Other Services                     | 9,950              | 3.3%                | 10,100             | 3.4%                | 10,100             | 3.4%                |
| Government                         | 50,150             | 16.6%               | 50,850             | 17.0%               | 51,900             | 17.3%               |
| <b>TOTAL NONFARM</b>               | <b>302,000</b>     | <b>100.0%</b>       | <b>299,900</b>     | <b>100.0%</b>       | <b>298,850</b>     | <b>100.0%</b>       |

SOURCE: U.S. Bureau of Labor Statistics, Vermont Department of Employment & Training, Current Employment Statistics Series.

(1) This data is compiled using the North American Industry Classification System (NAICS) which has replaced the U.S. Standard Industrial Classification System.

According to the latest data from the U.S. Bureau of the Census (December 2003) Vermont's population has a higher level of educational attainment than the U.S. population as a whole. The table below shows that a total of 89% of Vermont's residents aged 25 years and over have completed a high school education, a level which ranks Vermont above the 83% that have done so nationally. In addition, this data indicates that 31% of Vermont residents in that same age category have received a four-year college degree. That percentage compares favorably to the 26% of residents aged 25 years and older who have received such a 4-year degree nationally.

**Educational Attainment Vermont and U.S.  
Persons Aged 25 Years and Over  
As of December 2003**

| Level of Education                | Percent of Vermont<br>Population | Rank in<br>U.S. | Percent of U.S.<br>Population |
|-----------------------------------|----------------------------------|-----------------|-------------------------------|
| <b>HIGH SCHOOL:</b>               |                                  |                 |                               |
| High School Graduate or More..... | 89%                              | 11              | 83%                           |
| <b>COLLEGE:</b>                   |                                  |                 |                               |
| Bachelor's Degree or More.....    | 31%                              | 10              | 26%                           |

SOURCE: Bureau of the Census, Educational Attainment in the U.S., Current Population Report, March 2003.

Data from the 2000 Census indicate that Vermont's population is primarily rural. A total of 72.2% of the State's population lived outside of the State's single metropolitan area - the highest percentage among the 50 states. Vermont's percentage was nearly 3 1/2 times the national average percentage of persons living outside a metropolitan area (19.7%), and was almost seven times the average for the northeast U.S.

**INCOME AND SALES TAX RATES\***  
**Last Ten Fiscal Years**

| Fiscal<br>Year Ended<br>June 30 | Individual<br>Income<br>Tax (1) | Corporate<br>Income<br>Tax (2) | Retail<br>Sales<br>Tax | Meals &<br>Rooms<br>Tax (3) |
|---------------------------------|---------------------------------|--------------------------------|------------------------|-----------------------------|
| 2003                            | 3.6% - 9.5%                     | 7.0% - 9.75%                   | 5%                     | 9%                          |
| 2002                            | 3.6% - 9.5%                     | 7.0% - 9.75%                   | 5%                     | 9%                          |
| 2001                            | 3.6% - 9.5%                     | 7.0% - 9.75%                   | 5%                     | 9%                          |
| 2000                            | 24%                             | 7.0% - 9.75%                   | 5%                     | 9%                          |
| 1999                            | 25%                             | 7.0% - 9.75%                   | 5%                     | 9%                          |
| 1998                            | 25%                             | 7.0% - 9.75%                   | 5%                     | 9%                          |
| 1997                            | 25%                             | 7.0% - 9.75%                   | 5%                     | 9%                          |
| 1996                            | 25%                             | 5.5% - 8.25%                   | 5%                     | 7%                          |
| 1995                            | 25%                             | 5.5% - 8.25%                   | 5%                     | 7%                          |
| 1994                            | 25%                             | 5.5% - 8.25%                   | 5%                     | 7%                          |

\* Source: Vermont Department of Taxes

- (1) From 1993 to 2000, the tax rate presented above was applied to an individual's federal tax liability with some adjustments. Beginning in 2001, the individual rate range presented above is applied to a calculated Vermont taxable income instead of being applied to the federal tax liability. This methodology change was enacted to maintain the State's effective tax rate that was in effect prior to the recently enacted federal tax cuts.
- (2) Corporate Tax Rate is Graduated - Only the Upper and Lower Rates are shown- Minimum Corporate Tax amount = \$250.00.
- (3) Beginning June, 1989, Alcoholic Beverages are taxed at 10% rate.

## Largest Employers

The following table sets forth, as of September 2003, the ten largest employers in Vermont and the nature of their business, exclusive of the State itself and the University of Vermont.

Ranking of Vermont's Ten Largest Private Sector Employers  
As of September 2003\*

| <u>Firm</u>                     | <u>Nature of Business</u>          | <u>Size Code<br/>(Number of Employees)**</u> |
|---------------------------------|------------------------------------|--|
| International Business Machines | Semiconductors and Related Devices | 3  |
| Fletcher-Allen Health Care      | Health Care                        | 3  |
| Price Chopper Stores            | Retail Food                        | 1  |
| Hannaford Bros.                 | Retail Food                        | 1  |
| Middlebury College              | Post-Secondary Education           | 1  |
| General Electric Company        | Jet Engine Blades                  | 1  |
| Shaw's Supermarkets Inc.        | Retail Food                        | 1  |
| Rutland Hospital                | Hospital                           | 1  |
| Chittenden Trust Company        | Financial Services                 | 1  |
| C & S Wholesale Grocers, Inc.   | Wholesale Distributor              | 0  |

SOURCE: Vermont Department of Employment and Training.

\* Data is for employees covered under Vermont's unemployment law. As such, contract employees are not included.

| ** <u>Size Code</u> | <u># of Employees</u> |
|---------------------|-----------------------|
| 0                   | 500-999               |
| 1                   | 1000-2999             |
| 2                   | 3000-4999             |
| 3                   | 5000+                 |